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WAR DEPARTMENT

COMMENTS ON CURRENT EVENTS (1)

February 2---February 15, 1934

RECEIVED G/2 W. D. MAR 13 1934

1. The National Government.
2. Singapore Naval Conference.
3. United States Policy in the Far East.
4. Affairs in Sinkiang.
5. Shanghai War Anniversary.
6. Situation in North China.
7. Russo - Japanese Relations in Manchuria.

1. The National Government.

The Nanking Government has been having a much needed rest during the last two weeks and conditions are returning more to normal. Contrary to expectations of many well informed sources there appear to be few important changes in key personnel in prospect as a result of the Fourth Plenary Session which closed on January 25th. Then too there is an increased feeling of security now that the ship of state has weathered the troubled seas of the Fukien rebellion. Surprisingly little has been heard from Hu Han-min and the southwest political group. This may be due to the fact that the downfall of the 19th Route Army has given them a new respect for Chiang Kai-shek's power. The Fukien campaign brought large forces of Central Government troops further south than they have ever been before and this fact puts them strategically in a very strong position in the event that Kwangtung should voice much opposition to Chiang Kai-shek. Kwangtung has moved very carefully throughout the past few months, first in not joining the Fukien revolt and just now in treading quietly with reference to the dictates of Nanking.

Of interest in connection with the Fukien trouble were the rumors that the Japanese were assisting the rebels (see G-2 Report No. 8708). Up to the present time there is no proof that such was the case. In answer to question asked in Evaluation Report dated January 2, 1934, it is not believed that the Japanese would have intervened in Fukien to help either Eugene Chen's regime nor the 19th Route Army, both of which were opposed to friendly relations with Japan. Intervention for protection of Japanese nationals was a possibility and Japanese landing parties from naval vessels actually went ashore in Fukien as did naval guards from the British and American ships.

Following the close of the Plenary Session, Mr. T. V. Soong has been very active in his work on the National Economic Council, which body is gradually assuming more importance. According to Mr. Soong, the Council will pay special attention to reconstruction projects covering highway construction, shipping improvement, improvement of water works, development of China's Northwest, rehabilitation of the Communist-infested districts in Kiangsi, reforms of rural economics and promotion of public health.

Despite the orders to the effect that the foreign calendar will be used by the Chinese Government there is a perceptible slackening of official business all over the country due to the Chinese New Year which according to the lunar calendar will come on February 14th. Various officials are finding excuses to visit their homes and while it is understood that government offices will not close, it is believed that they will run on much reduced personnel over the holidays. The Lunar New Year Festival has been celebrated since time immemorial in China and it will be very difficult to change such an old custom by mandate. As a matter of fact it is not clear just why the Nanking Government should make such a point of its non-observance, unless it is due to a desire to completely follow foreign procedure in official matters.

The vexatious problem of finding the least important position for Chang Hsueh-liang which that individual could accept without too much loss of face was settled on February 7th, when a governmental mandate was issued making him the Deputy Bandit-Suppression Commander for the provinces of Honan, Hupeh and Anhwei. It will be remembered that Chiang Kai-shek forced the Young Marshal's resignation from the post of Chairman of the Peiping Branch Military Council last year, following the collapse of the northern troops in Jehol. The most significant angle of the whole affair was the interview given to the Japanese press by Lieut.-Colonel Shibayama of the Japanese Military Attaché's office in Peiping who among other presumptuous and amusing remarks stated that "We consider the post .... is good for him." This may be taken as official notice that the Kwantung Army will not oppose Chang's return to office as long as he stays out of North China.

2. Singapore Naval Conference.

All nationalities in the Far East have been very interested in the recent British naval conference held at Singapore on the H.M.S. Kent, flagship of Admiral Sir Frederick Dreyer. Important personages present were as follows:

Admiral Sir Frederick Dreyer, Commander-in-Chief of the China Station.

Vice-Admiral Dunbar Nasmith, Commanding British naval forces in East Indies waters.

Vice-Admiral G. F. Hyde, Australian Navy.

Rear-Admiral F. B. Watson, Commanding New Zealand Station.

Commander Sir John Alleyne.

Considerable secrecy has surrounded the discussions but press reports state that the conference was concerned with the establishment of a British naval base in the Falkland Islands off the eastern coast of South America. This, it was contended, with a strengthening of the Singapore base, would enable the navy to protect sea routes from England to the Far East not only by the Suez Canal but also via Cape Horn in event of a possible closing of the Panama Canal.

Additional press reports give as a cause for the anxiety of England, Australia and New Zealand, the fact of Japanese ambitions in the Far East and the belief that the Japanese navy is at least equal to that of the United States.

3. United States Policy in the Far East.

The Chinese as a whole are much gratified at the repeated expression of official opinion from the United States to the effect that the United States would refuse to recognize territorial gains made in violation of the Kellog - Briand Pact and the Nine-Power Treaty. This is taken to mean that the United States will not consider recognition of "Manchoukuo" since such a step would countenance a violation of China's territorial integrity.

While all thinking Chinese appreciate the attitude of the United States in this matter and are heartily in favor of what they consider a slap at the Japanese, it is not believed that they understand the actions of the American Government. A number of Chinese officials have stated that they cannot see why the United States keeps irritating the Japanese unless they intend to bring the matter to a head and openly oppose Japanese policies with a view to bringing on a war between Japan and the United States.

4. Affairs in Sinkiang.

Dr. W. W. Yen, Chinese Ambassador to Russia, has returned to China ostensibly for personal reasons and is now visiting his family in Tientsin. In addition to whatever private matters prompted his return, he will no doubt discuss with the National Government authorities events of his recent trip to Sinkiang where he met Dr. Lo Wen-kan and held discussions with the Soviet authorities. There is a general expression in Chinese official circles to the effect that China should conclude some form of non-aggression pact with Soviet Russia provided the question of the Russian attitude toward Japan in Manchuria can be defined in terms that suit the Chinese. Dr. Yen is stated to be leaving soon for Nanking to discuss such a pact.

In this connection it is understood that the Nanking government will try to cultivate closer contact between China proper and the outlying provinces, and to help this has decided to reorganize the Chinese consulates in important places along the Sinkiang-Soviet border. It is unfortunate that such steps were not taken at an earlier date but characteristic of Chinese procedure to attempt to solve an issue when the issue is upon them. While it is realized that closer relations with Sinkiang are a difficult matter, the problem for the Government will be even more difficult now that the Sinkiang kettle is boiling over. News from that far area is meager but it seems certain that a movement is on foot there to establish some sort of independent regime.

According to a Tass despatch the new government (see G-2 Report No. 8754, item 7) is sending delegates to Afghanistan for the purpose of negotiating for mutual recognition. The Japanese controlled Manchoukuo News Service considers this move as an indication that the British are behind this independence move and give Tass as their authority under what they claim a Tass heading "Great Britain's Plottings in Sinkiang".

5. Shanghai War Anniversary.

Flags were flown at half-mast and special memorial services were held in Shanghai and a number of the larger cities on January 28th, the second anniversary of the "Shanghai War". It will be remembered that just two years ago at this time the Japanese bombarded Chapei.

Patriotic demonstrations were more apparent in the South as might be expected and directly proportional to the distance of the locality from Shanghai. The great majority of the Chinese regard the action of the Japanese in Shanghai as just another calamity, such as a flood, and while the anti-Japanese sentiment is ever present it is difficult to effect an open expression of such feeling among the masses. It is much easier to do so among the students and better educated people and this explains the localizing of the Shanghai War memorial demonstrations to the larger cities.

6. Situation in North China.

With the approach of the Chinese New Year Festival the political situation has seemed more quiescent. Even the perplexing question of Sino-Japanese relations appears on the surface to be moving with less friction. The much talked of retrocession of Shanhaikwan took place on February 10th with much celebration. On the face of it this would look as though the Japanese had made a concession to the Chinese. Actually the Chinese have been forced to accept the Japanese demand that the Tunglocheng section of Shanhaikwan be considered outside the Great Wall. This Tunglocheng is a small section of the city which has grown up outside the northeastern gate through the Great Wall and is enclosed by a loop wall. Originally this loop wall may have been for defense purposes as an extra protection to the gate. The Japanese have constructed barracks in the Tunglocheng area and plan to keep a garrison there. Thus while the Chinese flag flies over the city of Shanhaikwan the Rising Sun continues to cast its shadow within the Great Wall, a fact which may be taken as indicative of the immediate future in North China.

The question of Kuomintang activities in the North has been ominously ignored since the reports of a Japanese warning which were quickly denied by both Chinese and Japanese sources. The belief of this office that some admonition was given has been substantiated.

According to usually informed sources, some progress has been made toward the early retrocession of other passes along the Wall, and Mr. Yin Ju-keng, Administrative Inspector of the Chihsien-Miyun area of the demilitarized zone, is now in Tientsin to confer with General Yu Hsueh-chung. Following this, it is anticipated that discussions will be continued with the Japanese for the purpose of taking over Kupehkow and other Great Wall passes, although the freely speaking Colonel Shibayama of the Japanese Legation told representatives of the Chinese press on February 10th - "There is no hurry".

This is a difficult period for Huang Fu. The Japanese are pressing him to come to some agreement which will hasten the opening of commercial relations with Manchoukuo. The Nanking Kuomintang insists that negotiations with the Japanese be not resumed and Chinese government agencies like the Post Office continue to annoy the Japanese by tightening the embargo on Manchurian mail. Huang Fu is between the devil and the deep blue sea and deserves no little credit for the way in which he is trying to appease the Japanese by fighting a very difficult diplomatic delaying action.

7. Russo - Japanese Relations in Manchuria.

Of interest to observers of events in Manchuria was the speech by Mr. K. E. Voroshilov, the Soviet Commissar of War, in a recent speech to the Communist Congress on the subject of Soviet defense measures in the Far East. Mr. Voroshilov is quoted as having made an attack on Japanese militarism stating that it was now quite evident that Japan had chosen war as a solution for her difficulties. He made the point that Russia must be on the alert since Japan was now the main purchaser of munitions and war material in world markets.

The Chinese Eastern Railway problem was also considered in the speech. The War Commissar brought out the fact that the Japanese had not only done all they could to injure Soviet interests but that the Japanese forces in Manchuria were far in excess of those actually needed for defense of Japanese legitimate interests. He also made the statement that the Soviet had somewhat increased their forces in the Far East and carried out certain measures of fortification, creating barriers in important sections.

Shortly after the publication of this speech, the Manchoukuo News Service gave out an article in which it stressed the huge military preparations of Soviet Russia which it claimed far surpass the limits of self-defence. They claim that the Trans-Baikal, the Amur and Usuri Railways have been placed under control of the Soviet Army and that under the slogan of "Complete Soviet military establishment on the eastern front before the outbreak of war in March", the Soviet Army has nearly completed the construction of 80 per cent of the projected military works extending for more than 350 kilometers between Tungning and the outskirts of Iman.

There is no doubt that the Russians have constructed formidable defenses in critical areas as previously reported (G-2 Report No. 8712) but it is believed that these are designed primarily for defense.

While it is true that in Manchuria there exist all the elements which breed a major war and this office believes that such an outbreak is well within the bounds of possibility, it is not believed that hostilities will take place as soon as current opinion contends. Russia has progressed since the Russo - Japanese War and the weak link of the Trans - Siberian Railway is appreciated far more to-day than then. This one line, even now not completely double tracked, is the greatest obstacle to any Soviet military operations in the Far East as it is the sole line of communication on which the Russians can depend.

It is also believed that Russia is not industrially prepared to fight a protracted war at this time and certainly it would appear that all things being considered, she would not willingly engage in other than defensive military operations. Japan on the other hand has just added a vast territory to her empire by conquest. Manchuria must be pacified, organized and its resources mobilized for war before it would seem wise for Japan to risk her very existence in another struggle with a far different Russia than that which faced her in 1904. Of course she realizes that delay in bringing matters to a head in order to be fully prepared herself also works to the advantage of the Soviets. It is believed that Japan would be more willing to fight at this time than would Russia, but it seems improbable that Japan will force a war just now.

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No. 8765 1st Ind. WSD:cht

Office of the Military Attache, American Legation, Peiping, China, February 13, 1934 - To: Chief, Military Intelligence Division, Washington, D. C.

Approved.

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Lieutenant-Colonel, Infantry
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OFFICE CHIEF OF STAFF
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COMMENTS ON CURRENT EVENTS

February 16——March 1, 1934

RECEIVED G/2 W. D. MAR 27 1934

1. The National Government.
2. Arrival of British Minister.
3. Pan-Asiatic League.
4. Franco-Japanese Consortium in Manchoukuo?
5. German Consular Appointment.
6. Chinese Eastern Railway.
7. The New Empire.
8. Retrocession of Great Wall Passes.

1. The National Government.

The present keynote of National Government policy was sounded by Wang Ching-wei when on February 19th he announced at the Sun Yat-sen Memorial Service that (1) "The Powers can help us only after we have put our house in order. (2) "For China to conclude any entangling alliance with any foreign power is to invite disaster. (3) "Material reconstruction is the only way out for China."

This followed closely upon the joint message of Wang Ching-wei and Chiang Kai-shek which was released to the press on February 12th. Among the main points covered were the necessity of dealing harshly with the Fukien trouble, importance of the Communist suppression campaign and industrial development. The value of cementing closer relationships between the Central Government and distant provinces was emphasized and in line with this policy is the proposed sending of General Huang Mu-sung, Special Commissioner to Tibet, to his new post via Szechwan and Sikang (see G-2 Report No. 8740, item 3).

An effort to settle matters in Sinkiang has also been made by the appointment of a Sinkiang Reconstruction Planning Committee under the direction of Dr. Chu Ming-yi, Secretary-General of the Executive Yuan. Other prominent members are Dr. Lo Wen-kan, Minister of Justice; General Huang Shao-hsiung, Minister of Interior; General Huang Mu-sung, the newly appointed special commissioner to Tibet; Mr. Shih Ching-yang, Chairman of the Mongolian and Tibetan Affairs Commission; Dr. Chu Chia-hua, Minister of Communications; and General Ho Yao-tsu, Vice-Chief-of-Staff of the Ministry of War.

Dr. W. W. Yen has also voiced his opinion that it was essential to put China's own house in order first and then concentrate on diplomatic efforts. Perhaps this forecasts no hope for the Sino-Soviet non-aggression pact, but more likely it is given as an anchor to the windward in case he is unable to bring the National Government and the Soviet Ambassador to some mutually satisfactory agreement.

Much interest has centered around the visit to Nanking of Mr. Akira Ariyoshi, Japanese Minister to China. The Japanese news agencies have intimated that he went there at the request of the Chinese Government to attend a conference concerning affairs in North China, but this has not been substantiated.

Japanese sources intimate that some understanding has been arrived at between the Japanese and Chiang Kai-shek which would amount to Japanese support for him in exchange for greater influence in the North. It is believed that while pressure is being exerted on the Central Government that the Japanese are more concerned over customs tariff problems than anything else just now. On the other hand it would seem unlikely that Chiang Kai-shek who emerges from the Fukien rebellion with more power than ever and who has succeeded in lessening even the usually outspoken opposition of Canton would make any such agreement at this time with the Japanese. However, it is known that the Japanese are urging Huang Fu to go to Nanking for the purpose of obtaining a freer hand to handle matters with them in the north of China. Confidential sources indicate that Huang does not wish to press Chiang Kai-shek now and should Japanese protests become too active, he may require hospital treatment as a delaying measure to avoid a trip to Nanking. Huang has troubles of his own in the interior administration in the North, particularly since his candidate for Mayor of Peiping, Mr. Hsu T'ing-nien, refuses to return from the South. (see G-2 Report No. 8754, item 6).

It is believed that the visit of Mr. Ariyoshi to Nanking was not only to discuss customs tariff but also to give Japanese views concerning the increased Chinese air activities in Fukien, particularly the establishment of aviation fields at Amoy and Foochow by the China National Aviation Corporation, a Sino-American concern. The Japanese are watching aviation developments in Fukien with much suspicion. They take the view that it is contrary to the 1904 agreement in which China undertook to give Japan preference in the event of requiring foreign capital for the development of Fukien province. This matter will be discussed more fully in a separate report.

2. Arrival of British Minister.

Sir Alexander Cadogan, new British Minister to China, arrived in Shanghai on February 26th. with his wife and two daughters. It is understood that he will go to Nanking to present his credentials on March 6th. When questioned regarding the Sino-British Commercial Treaty, the new British envoy stated that he had received no instructions reference revision but would study the matter carefully and submit his views to London.

Sir Alexander Cadogan also remarked that he would do his utmost to foster Sino-British relations in a spirit of co-operation and friendship. If he can carry on the measures so ably started by his predecessor, Sir Miles Lampson, he will be of great value to his country. Sir Miles was very popular with the Chinese and was an opponent of the "die hard" school of British diplomacy in the Far East.

3. Pan-Asiatic League.

The Japanese inspired Pan-Asiatic League which held a preliminary conference in Dairen recently has decided to sponsor an All-Asia Conference in 1935. Press reports indicate that there were nine nationalities represented. An indication of the usefulness of this organization may be seen by a resolution passed urging the Japanese Minister to China and the Japanese Consul-General in Manila to work for the entry of Manchoukuo in the Far Eastern Olympic Meet.

It is quite obvious that the so-called Pan-Asiatic League will sponsor a rule of the Japanese, for the Japanese and by the Japanese in Asia. The slogan of "Unite Asia against the West" is propagandized simply with the hope of bettering Japanese position in this part of the world.

4. Franco-Japanese Consortium in Manchoukuo?

Rumors of last October to the effect that French financial circles were interested in Manchoukuo have again been revived from Tokyo with the report that M. Andre d'Oliver representing the Association Nationale Francaise d'Expansion has received authority to sign an agreement for large scale participation in the economic reconstruction of Manchoukuo with a Franco-Japanese consortium. It is known that the officials of the South Manchurian Railway were very anxious to secure capital for their expansion schemes and some months ago the official Manchoukuo News Service published a report that an agreement had been reached between M. d'Oliver and the S.M.R. However, no further announcements of the deal have been given out.

It is believed that the Japanese are far more anxious than the French for the use of French money in Manchoukuo and it is no doubt this wish that prompts these rumors, all of which appear to come from Japanese sources. The Chinese look on the possibility of French money in Manchuria with suspicion as an indication of a Franco-Japanese understanding which holds no consideration of Chinese rights in Yunnan as well as in the "lost provinces".

5. German Consular Appointment.

Herr Hermann von Kriebel has just been appointed German Consul-General in Shanghai. He is reported to be a close friend of Hitler and in his new position in the German Consulate will succeed Baron Ruedt von Collenberg who was sent as German Minister to Mexico.

The new Consul-General will be better remembered as Lieutenant-Colonel Kriebel, some four years ago a military adviser to the Chinese Nationalist Government. He followed Colonel Bauer in this capacity and was later himself succeeded by General Wetzel.

6. The Chinese Eastern Railway.

After some months of stalemate the first hopeful signs that negotiations for the sale of the Chinese Eastern Railway might be reopened in Tokyo have come in a Tass message from Khabarovsk dated February 24th. This reported the release of the six Soviet officials of the railway which were arrested last September. It will be remembered that following the arrest of these officials the Soviet Government published documents "disclosing the methods the Japanese military authorities and the Japanese administration in Manchuria intended to follow" (see G-2 Reports Nos. 8669, item 6 and 8679, item 4). This was Russia's trump card and the Japanese had no means of meeting it. These two events brought the conference to a condition where further discussion seemed fruitless and so the matter has stood.

It is stated that the released officials will be free to return to Russia and that their places will be filled by new Soviet appointees. This of course is a compromise. The

Japanese-Manchoukuo substitutes who have been carrying on the railway work will be relieved but the former Soviet office holders will be replaced by new ones and the face of both contending parties thereby saved. Soviet sources are quite frank in saying publicly that the arrest of these officials constituted the first step in the Japanese-Manchoukuo plan to seize the Chinese Eastern. After their arrest, the Manchoukuo interests in the line placed their own men in the vacant positions who, the Russians claimed, issued orders with the intent to obstruct the proper operation of the railway. Now the curtain has come down on what seems to be the final scene of this act when M. Rudy issued an order signed by his Manchoukuo and Soviet assistant managers regarding the appointment of temporary Russian heads of the Railway Traction, Finance Department, and Railway Repair Shops. These will function pending the confirmation of the appointment of regular chiefs to be proposed by the Commissariat of Railways. This is the first hopeful sign in the inactivity which has surrounded the discussions for sale of the world's most troublesome railway and should relax the tension between Russia and Japan in Manchuria.

7. The New Empire.

The Oriental mind is so constituted that delay in achieving a desired end does not confuse the ultimate objective. So the Japanese are consumating one of their aims in the Far East when Pu Yi, the "Boy Emperor" of China is crowned Emperor of Manchoukuo on March 1st.

In 1924 when Feng Yu-hsiang turned on Wu Pei-fu in the Chihli-Fengtien War, he marched back from Jehol and took over control of Peking. One of the so-called Christian General's first acts after establishing himself by virtue of strong arm methods, such as hanging human heads in crates at all the principal street junctions, was to drive the poor little "Boy Emperor" from the Palace. Pu Yi, always a likeable, pathetic figure was turned out of his only retreat wherein he and his few close followers held court and was forced to seek refuge in the East City. Immediately Cheng Hsiao-hsu and Ch'en Pao-chen, two of the Imperial advisers, went to the Japanese Legation and made arrangements for Pu Yi to receive sanctuary therein. Here began the Japanese dream of making use of the Emperor some day for their own ends. He was later taken in disguise to a place of safety in the Japanese Concession in Tientsin and some years after spirited away by a Japanese ship to Manchuria when the Japanese needed him to become the figurehead Chief Executive of their newly created Manchoukuo. Cheng Hsiao-hsu as a reward for his help in placing Pu Yi in Japanese hands was made Premier of the new state. Ch'en Pao-chen is still the most honored teacher-adviser of Pu Yi and has been active lately in trying to gather former Manchu officials in North China by offering them lucrative positions in Manchuria. With the crowning of Pu Yi on March 1st the Japanese will finally begin to realize on their almost ten years of investment in protecting him.

Looking through the names of Chinese officials who have accepted office in Manchoukuo, one is struck with the large number that come from Fukien or who trace their immediate ancestry to that province. This no doubt is the result of the ancient and far reaching family and friendship system in giving official positions. Many Chinese give the Fukienese credit for having special talent for political intrigue. It is well known that the Fukien clique in the Chinese Navy has been forever causing trouble and the latest rebellion in that area would lend color to this belief. Cheng Hsiao-hsu and Ch'en Pao-chen mentioned above are from Fukien as are a number of other Manchoukuo office holders. According to reliable sources members of this Fukien clique are friendly with the more conservative Japanese element in Manchoukuo governmental circles. The more progressive Japanese are supposed to be planning the elimination of men like Cheng and the latest plot is to replace him as Premier by Shen Jui-lin. Shen was a former Chinese diplomatic representative in Europe and was acting Minister of Foreign Affairs in Peking in 1922. Tsang Shih-yi, one of Chang Tso-lin's staunch supporters, is also rumored to be slated for a high post if the more progressive Japanese elements have their way.

Strange as it may seem, there is little excitement manifested as yet in North China incident to the coronation of Pu Yi. Chinese official sources have stated confidentially that they have been advised of a Japanese plot to cause trouble along the Peiping-Shanhaikwan railway by employing some paid bandits. This trouble would be ostensibly a protest on the part of the Chinese inside the Wall against the new regime in Manchuria. It is possible that the Japanese hope that if such a movement were started it might gain headway and serve as another "incident" necessitating the use of Japanese troops inside the Great Wall. It is known that all but sixty men of the Japanese Legation Guard in Peiping were sent to Tientsin for the period from March 1st to 6th for "combined maneuvers" with the Tientsin garrison, and this may be the reason for the move. Conditions were quiet in Peiping. Several of the Japanese commercial firms had the Japanese and Manchoukuo flags crossed over their doorways, but this form of decoration was absent from the Japanese Legation itself. The soldiers of the Legation Guard who remained in Peiping appeared on March 1st for the first time in months in full field equipment with steel helmets. It is quite evident that the Japanese are a little apprehensive of trouble but there are no evidences of demonstrations against Manchoukuo apparent to date in North China.

From best available information it seems that all of the excitement and festivities seen in Manchoukuo are sponsored by the Japanese, who are determined that there will be suitable celebrations surrounding the coronation of the new Emperor. Manchu sources in North China who are in constant communication with Manchuria state that even the peasants are not fooled by Japanese propaganda and that all realize that Pu Yi will be but a puppet with Japan pulling the strings. However, despite this realization of much of the population as to this state of affairs, there is believed to be a certain element in Manchuria and inside the Great Wall as well who have a deep reverence for what Pu Yi represents and will hail his return to the Dragon Throne even though outside the Wall.

8. Retrocession of Great Wall Passes.

Following the retrocession of Shanhaikwan on February 10th (see G-2 Report No. 8765, item 6) there has been some progress toward the face saving measure of handing back the other Great Wall passes to nominal Chinese control. The important pass of Kupehkow was scheduled to have been taken over by the Chinese on February 28th but the date has now been postponed. Mr. Yin Ju-keng, Special Administrator of the

Chihsien-Miyun area and representative of the Peiping Political Readjustment Council, and Colonel Matsui, Deputy Director of the Japanese mission in Jehol City, who represented the Kwantung Army are reported to have reached an agreement which provides (1) that after the retrocession the administrative affairs of Kupehkow and vicinity will be managed by the Kupehkow office of the Administrative Inspector for the Chihsien-Miyun area (2) that all the "provisional organizations" existing during the Japanese occupation shall be abolished and (3) that pending the completion of arrangements for their removal, a portion of the Japanese organs shall remain at Kupehkow, but that these would not interfere with Chinese administrative matters.

It will be noted that in the agreement no mention is made of withdrawing the Japanese garrison of about one hundred men now in Kupehkow nor the "Manchoukuo Frontier Police" which have been stationed at times as far south as Nantienmen, the important terrain feature about nine miles south of Kupehkow. Possibly these are the "organs" which the Japanese will retain at Kupehkow, pending arrangements for their removal. So starting at Shanhaikwan, the Rising Sun will continue to cast its shadow further westward along the Great Wall.

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Office of the Military Attache, American Legation, Peiping, China, March 1, 1934 - To: The Chief, Military Intelligence Division, Washington, D.C.

Approved.

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WAR DEPARTMENT

COMMENTS ON CURRENT EVENTS

March 2 to March 15, 1934

RECEIVED G/2 W. D. APR 11 1934

1. The National Government.
2. Soviet - Japanese Relations.
3. Tibetan Politics.
4. Italian Flyers.
5. British Exploration in Yunnan.
6. Sino - Japanese Relations in North China.
7. Chinese Military Mission in Europe.
8. Imperial Manchoukuo.

1. The National Government.

During the past two weeks officials of the government have been engaged in conferences, both governmental and Kuomintang, and while it is understood that some important policies were tentatively decided upon, no announcements have been forthcoming. Various groups of prominent representatives of the National Government and of the Kuomintang have been meeting to exchange opinions concerning the measures and policies to be adopted with reference to any new situation which might develop in North China arising from the establishment of the empire in Manchuria. Other questions under discussion were the situation in Tibet, the trouble in Ninghsia and the disposal of troops of General Sun Tien-ying. Further details concerning the Tibetan question will be found elsewhere in this report while the situation with reference to Ninghsia and Sun Tien-ying are covered in G-2 Report No. 8788.

After many months of work by a special committee of the Legislative Yuan under the guidance of Sun Fo, its President, the final session of the drafting committee was held on February 24th and a draft constitution adopted. The details of this have not been published as it has yet to be presented to a plenary session of the Legislative Yuan for approval. Many changes will no doubt occur in the draft before it will be passed by the National Kuomintang Congress and before it is brought before the National People's Congress for final adoption. On March 5th, Mr. Sun Fo delivered a report at the weekly Memorial Service in which he pointed out that the draft had been adopted after long deliberations in the Legislative Yuan and that it was based on the spirit of Dr. Sun Yat-sen's Principles of National Reconstruction and his Three Peoples Principles. The constitution, said Mr. Sun Fo, is divided into ten chapters and contains one hundred and sixty articles.

On March 6th the Executive Yuan published a set of regulations governing the organization of a district autonomous political council for Inner Mongolia which were ratified by the Central Political Council the next day. The title of this political organ is the Mongolian District Self-Government Political Affairs Committee which is to be composed of from nine to twenty-four persons all of whom must be Mongolians. Under this there will be two bureaux or "t'ing", departments of reconstruction, civil affairs, education and economics and a finance commission. Membership on the Committee will be limited to Mongolians as noted but the staffs of the various departments may be filled by persons from any part of the country who have the necessary technical knowledge. General Ho Ying-chin, the Acting Chairman of the Peiping Branch Military Council, and Mr. Chao Tai-wen, Vice-Chairman of the National Commission for Mongolian and Tibetan Affairs, have been appointed Commissioner and Deputy Commissioner respectively for the guidance of Mongolian autonomy. Chao Tai-wen will be remembered as being one of the elder statesman type of Chinese who for many years was close to Yen Hsi-shan in Shansi. A translation of the regulations for this new Committee will be given in a later report.

Prince Yun of Ulantsab, the most venerable and respected of the old Mongol Princes, has been appointed by the Executive Yuan as Chairman and Prince Sha and Prince So as Vice-Chairmen. These three men are outstanding representatives of the older and more conservative Mongols. Prince Teh (Teh Wang), the leader of the "Young Mongols", whose name has figured prominently in recent autonomy movements has been made a member of the Committee. It is questionable whether or not this will satisfy the more progressive element but it seems likely that a satisfactory compromise has been effected. The establishment of this Mongolian District Self-Government Political Affairs Committee is believed to have been reluctantly done by the Central Government, but it is thought that it was a very wise move at this time. It is to be hoped that the Central Government has not been too late in coming to a decision on the Mongolian question and that this measure will have the effect of holding Inner Mongolia to China and obstruct Russian and Japanese influence in that area.

2. Soviet - Japanese Relations.

Following the release of the Soviet officials of the Chinese Eastern Railway by Manchoukuo (see G-2 Report No. 8779, item 6), the strained relations existing for some months between Russia and Japan have been eased considerably. News from Tokyo under date of March 13th indicates that Foreign Minister Hirota invited Mr. Yurenev, the Russian Ambassador, to the Foreign Office where discussions were held about both the sale of the Chinese Eastern Railway and the fisheries questions.

Mr. Yurenev is reported to have said that the U.S.S.R. is agreeable to the formation of a commission of experts to examine into the particulars relating to the railway. Japanese press despatches state that such a meeting of experts will be held in a few days and that Mr. Mori, Chief of the Communications Section of Manchoukuo, and Consul-General Geleznikov will be in charge for their respective countries.

While the sky seems clearer toward the C.E.R. issue there are yet clouds over the fisheries question wherein there appear to be many differences of opinion.

3. Tibetan Politics.

The anticipated departure for Tibet of General Huang Mu-sung, special commissioner, to convey the condolence of the National Government to the Tibetans on the occasion of the death of the Dalai Lama, brings to mind the troubled political conditions in that far province. For many years there has been a bitter feud for control of power in Lhassa between the Dalai

Lama, temporal ruler, and the Panchan Lama, spiritual ruler of the Tibetan people. The thirteenth incarnation of the former who recently died, forced the Panchan Lama into virtual exile some ten years ago. Following the death of the Dalai Lama last December, the Panchan Lama went to Nanking in the hope that an agreement might be reached to insure him the support of the Nanking Government and enable his return to Lhassa.

The fourteenth incarnation of the Dalai Lama has not been found as yet according to latest reports from Tibet. The elders who are in charge of affairs in Lhassa are favorable apparently to the so-called "Young Tibetan Party" which supported the late Dalai Lama and naturally are not anxious for the return of the Panchen pontiff. This party is anti-Chinese and desires partial or absolute independence from China. They are credited with being responsible for the aggressive policy on the Szechwan - Sikang border which has been renewed lately, a continuation of the dispute over the formation of Sikang.

The question of the province of Sikang has been a troublesome one due to the fact that it was formed by taking a portion of Szechwan and Tibet to form a new province. The Tibetans claim that their territory still extends to the upper Yangtze and the part of Sikang which is ~~west~~ east of the Yangtze is still under the military control of a Szechwan border commissioner. The provincial officials and political machinery of the new province of Sikang have not functioned to date, in fact a chairman for the province has not been appointed.

Of course the real motive of the National Government in sending General Huang Mu-sung to Tibet is to try and strengthen governmental control over that territory. With this in view, officials have been having conferences in Nanking with the Panchan Lama who has been appointed recently to an honorary post. After nearly ten years of exile the latter is most anxious to return to Lhassa and could he do so with the backing of Nanking it would be mutually beneficial to both parties. The greatest obstacle to the plan is the present faction in control which is supposed to be favorable to policies of the former Dalai Lama and naturally adverse to the Panchan Lama or to any Nanking interference in Tibet. The hope of the Panchan Lama and the Nanking Government is that some sort of compromise with those in power may be reached that will be satisfactory to all.

It is believed that it will be hard to convince the so-called "Young Tibetan Party" that Nanking has much to offer them at this time as traditionally their inaccessible province has been practically independent for years. General Huang plans to journey to Tibet via Szechwan, but no definite date has been announced for his departure. He has been visiting in North China during the last few days and seems very optimistic regarding his mission which is understood to be a sort of preliminary reconnaissance, following which the National Government and the Panchan Lama will make their decision and adopt a plan of action.

4. Italian Flyers.

Despite reports from Italy to the effect that Lieut. Colonel Mario de Bernardi (Italian Air Force Reserve) was to be a technical aviation adviser to the Chinese Government, it is not believed that any such position has been tendered to him. Since his arrival in Shanghai last January (see G-2 Report No. 8740, item 8), Colonel Bernardi has been trying very hard to sell

Caproni planes and at the same time putting out feelers with reference to more permanent employment in China.

He has been visiting North China recently and while in Peiping it was announced that although he was a close friend of H. H. Kung, T. V. Soong, and Marshal Chang Hsueh-liang, he had not yet accepted any official post with the National Government. The whole attitude of Colonel Bernardi is quite apparently that of being willing to sell his services as well as the planes of the Caproni interests. During his stay in Peiping, he gave out to the press that he intended to return to Italy soon but that he might consider taking a post as technical adviser to the National Government upon his return to China at a later date.

In another press interview the Italian flyer stated that the most suitable means of developing the Chinese air force was at first to buy military planes from abroad but later to build factories in China. He has given stunting exhibitions in Shanghai and states that he hopes to demonstrate his Caproni planes in Peiping. It is expected that he will make an effort to capitalize his ship-board acquaintance with Chang Hsueh-liang in an endeavor to interest the Young Marshal in purchasing some Italian planes for bandit suppression work in Central China.

5. British Exploration in Yunnan.

Some excitement has been caused by reports that a British expedition, belonging to the Burman Corporation, has been exploring the Wa states just inside the northern Burma frontier. This group is supposed to be carrying out investigations concerning some coal mines and while essentially civilian it is known that they had a guard of armed police consisting of about a hundred men. The boundary line between northern Burma and Yunnan without question is not clearly defined. The Penhung area in which the Chinese claim the British crossed the border is southwest of Kunlong, Burma, where the British territory projects toward the Mekong River.

It is understood that the Indian Government asked the British Legation in Peiping as to the advisability of notifying the Chinese Government regarding the proposed expedition but were told that it would be far better to go ahead with the expedition and worry about protests later, should any be made. While this expedition may cause considerable press comment it is not believed to be of any significance other than that of being a perfectly legitimate British commercial investigation, which due to the indefinite boundary line may have crossed some questionable territory.

According to press reports from London, Mr. Kuo (Quo) Tai-chi, the Chinese Ambassador, was instructed to enter a protest at the British Foreign Office. The Foreign Office is stated to have admitted an accidental trespass.

6. Sino - Japanese Relations in North China.

The ceremony of returning the Koupehkow Pass to Chinese control, which was first scheduled for February 28th but postponed, took place on March 4th. Chinese sources give as the reason for postponement the insistence of Japanese military officials that the Japanese troops inside the Great Wall be allowed to hold celebrations in honor of the coronation of Pu Yi on March 1st if the Chinese took over Koupehkow on February 28th as originally intended. The officials in charge of the retrocession were Mr. Yin Ju-keng, Special Administrator of the Miyun - Chihsien Area, who represented the Peiping Political Readjustment Council and Colonel Matsui, Deputy Director of the Japanese Mission in Jehol City. As a matter of general interest it may be recalled that Mr. Yin is a Japanese returned student and a former Fengtien official under Chang Hsueh-liang.

It should be noted that what is announced as the retrocession of Koupehkow is in reality the turning over of the part of the town south of the actual gate through the Great Wall at Koupehkow Pass. It is too early to tell exactly what the Japanese intend to do with reference to control of the pass as "Manchoukuo" Frontier Police are still located south of the Wall and while the bulk of the Japanese troops are now located in the main part of the city north of the Wall, about one hundred still remain in the pass. The old town of Koupehkow situated in one of the most picturesque spots along the Great Wall has seen some peculiar situations. Frequently passed through by military and hunting expeditions of the Mongols and Manchus, and on the direct road to Jehol which has been one of the colorful arteries of Chinese history, it is doubted whether it has ever been a part to such an anomalous condition as exists there to-day.

No striking developments in Sino - Japanese relations have been observed in the period covered by this report. General Huang Fu, whose presence in the Peiping Union Medical College Hospital was most opportune to postpone a trip to Nanking, has recovered and is back at work again. The Japanese must have relaxed their pressure to have him go to Nanking for the purpose of obtaining greater authority to adjust political matters in North China. In this connection it is interesting to note that Mr. Tang Yu-jen, Vice-Minister of Foreign Affairs and concurrently Secretary-General of the Central Political Council, arrived in Peiping on the evening of March 14th, and it is believed that his trip is connected with the known desire of General Huang Fu for more freedom in handling Sino-Japanese questions in the North.

One of the most typical and amusing evidences of Japanese activity in China was brought to light when a Mr. C. Araki, one of the "Diplomatic Officers" attached to the Japanese Army Headquarters in Tientsin, appeared in Peiping for the avowed purpose of listing foreign mission property in that area. Investigation disclosed that Mr. Araki had been doing this same thing in Tientsin and other localities in North China. On his arrival in Peiping, one of the first things he did was to call on the British Military Attache, and request an introduction to Bishop Norris of the Anglican Mission. After this he called upon representatives of the American Presbyterian and American Board Missions. In making his calls he presented a card on which was printed in English "Diplomatic Officer, Imperial Japanese Army Detachment, Shanhaikwan, attached to Imperial Japanese Army Headquarters, Tientsin". In some cases the first part of the title was scratched out.

Mr. Araki stated to representatives of the foreign missions that while of course no trouble was expected at present in North China, it would be well, in case of future developments, for the Japanese military authorities to have lists of all foreign missionary owned property in the northern Hopei area. Most of the missions approached complied with this request at least in part. Mr. Sheldon Ridge of the "Peiping Chronicle" proceeded to make quite an issue of the visit of Mr. Araki and published several articles inviting public attention to the Japanese representative in such abusive terms that some reaction from the Japanese against him would not have been surprising. The Japanese Legation authorities both civil and military have taken a peculiar attitude toward the case. The Japanese Military Attache's Office issued a statement through the Nippon Dempo News Agency to the effect that Mr. Araki was evidently a vagabond or ronin without any fixed occupation and had no relation whatsoever with the Japanese military authorities. The spokesman of the Military Attache further said that proper steps had been taken with regard to Mr. Araki expelling him from China. Mr. Nakayama, the First Secretary of the Japanese Legation, stated that Mr. Araki was to be sent home and when questioned where home might be - Tientsin or Japan - replied "Japan".

Mr. Araki had been known to this office when he was attached to the Japanese Army in Shanhaikwan and also in Tientsin, so when Japanese official sources denied his connection with the Japanese Army, inquiries were made as to his present position. It appears that Mr. Araki is still on duty with the Japanese Army in Tientsin as "Diplomatic Officer". When questioned by a reliable source Mr. Araki indicated that there was some difficulty between him and the Japanese Military Attache in Peiping, Colonel Shibayama, and made the remark that "The case is not yet finished. We will see in a little while." It is apparent that Colonel Shibayama considers the activity of Mr. Araki as a trespass on his own particular territory which he does not think comes under the jurisdiction of the Tientsin command.

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7. Chinese Military Mission in Europe.

The Chinese military mission headed by General Yang Chieh which has been touring Italy and Turkey (see G-2 Report No. 8728, item 7), has arrived in Soviet Russia. General Yang was received on March 7th by Mr. Voroshilov, the War and Navy Commissar.

The Soviet authorities have apparently made every effort to make the stay of the mission an interesting one, and have arranged for visits to a number of the Soviet military training institutions, detachments of the Moscow military district, the Central Institute of Aerodynamics and the Central house of the Red Army. The mission left for Poland on March 8th.

8. Imperial Manchoukuo.

Pu Yi, the former "Boy Emperor" and last of the Ching Dynasty emperors of China, was crowned Emperor of Manchoutikuo on March 1st in the presence of Marshal Hichikari, commander of the Japanese Kwantung Army and ambassador to "Manchoutikuo", General Koiso, Chief of Staff of the Kwantung Army, Admiral Hayashi, Japanese Naval Commander in Manchuria, and General Tayo, Commander of the Japanese Gendarmerie in Manchuria. According to best available information the Japanese were the only persons other than "Manchu" officials who were present at the coronation ceremony. Eyewitnesses of the festivities surrounding Pu Yi's ascension to the throne state that it was entirely a Japanese military parade and that as far as could be seen, the people of Manchuria were for the most part indifferent to the outward change in form of government.

As previously reported there has been apparently little reaction in North China, even in Peiping, to the enthronement of the former resident of the Ching Imperial Palaces. This would seem hardly normal of what might be expected and would be most unusual in any other country than China. However, Chinese history is merely repeating itself as in the past many dynasties have fallen for one reason or another and the great majority of the people are quite ready for a change, since it is the general belief that a government stays in power until its abuses of the people reach the breaking point. Then the government falls and the people are ready for a change believing that a new government will be more considerate of them for a time, and in that interval their burdens will be more bearable.

The official reaction of Nanking to the new empire has of course been different. Mr. Wang Ching-wei, President of the Executive Yuan and Minister of Foreign Affairs, gave an interview to the press on March 1st, in which he said in part:

> "The assumption of the Imperial title by Pu Yi, another act of high treason against the Chinese Republic, has long been heralded and is arousing nation-wide indignation in this country.
>
> "However, as we look at the situation, the status of the Three Eastern Provinces and Jehol is no other than that of illegal military occupation, while Pu Yi and other members of his theatrical troupe are mere puppets controlled by their masters and have no independent personality.
>
> "Whether Pu Yi's name be 'Chief Executive' of 'Emperor', or whether his illegal regime by 'Republican' or 'Monarchical' does not affect in the least the inherent nature of the puppet, the changes being mere shifts in the role the puppet plays.
>
> "Looking from this angle, one need not be greatly surprised at all at the farcial comedy that is being enacted in Changchun.
>
> "China's attitude towards the puppet regime has always been the same and shall remain so notwithstanding any change in the appearance of the puppet."

The Southwest Political Council also issued a statement which was followed by another from Wang Ching-wei to General Chen Chi-tang, the Commander of the First Kwangtung Army Corps, in which he reiterated the stand of the National Government toward Manchoukuo and put in a plea for national unity. His advice to the Cantonese was that a united front and not separate action by various sections of the country was preferable in as much as the issuance of separate statements indicated a lack of unity that would put China in a bad light before the world.

Considerable apprehension has been apparent in some foreign circles, particularly the British, as to the effect of the enthronement of Pu Yi upon Inner Mongolia and many persons expected a definite breaking away of the Mongols from all pretense of connection with the National Government of China and a joining with Manchoukuo. It is known that a Mongol delegation of some description was actually present in Hsinking for the coronation ceremonies but there is no information available which would prove that these men represented any element of importance in Mongolia. There is no doubt that the Japanese are making every effort to expand their influence into Mongolia, but it is not believed that their present intention is to include this territory in the new empire which they have created in Manchuria. It would seem far more reasonable for them to endeavor to establish semi-independent Mongolian states under Japanese influence to serve as a buffer between Manchoukuo and Soviet Russia.

S. V. Constant
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Major, Cavalry
Assistant Military Attache

1 Map attached.

Distribution:
- 6 MID
- 1 Legation
- 1 Tientsin
- 1 Tokyo
- 1 Manila
- 1 Guard
- 1 N/A
- 1 File

No. 8789 1st Ind. WSD:cht

Office of the Military Attache, American Legation, Peiping, China, March 15, 1934 - To: The Chief, Military Intelligence Division, Washington, D.C.

Approved.

W. S. Drysdale
W. S. Drysdale
Lieutenant-Colonel, Infantry
Military Attache

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CHIEF OF STAFF
MIL. INTEL. DIV.
APR 25 1934
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WAR DEPARTMENT

COMMENTS ON CURRENT EVENTS

March 16 to March 22, 1934

RECEIVED G/2 W. D. APR 24 1934

1. National Government Affairs.
2. French Financial Interest in Manchoukuo.
3. Trial of Sinkiang Ex-Governor.
4. Manchoukuo Mission to Japan.
5. American Officers in North China.
6. Situation in North China.

1. National Government Affairs.

With the promulgation of the regulations governing the Mongolian District Self-Government Political Affairs Committee, officials at Nanking feel that the Mongolian question is on the way to a satisfactory settlement. While in agreeing to these regulations the National Government gave considerably more than the Mongol delegates expected, a great deal of power is still in the hands of the Director General or Commissioner who is General Ho Ying-chin, Acting Chairman of the Peiping Branch Military Council and Minister of War. It is as yet too early to tell just what the effect of these new regulations will have upon Mongolia and whether or not Nanking has procrastinated too long in negotiating terms with the Mongols.

Some comment has been caused by the fact that the new British Minister, Sir Alexander Cadogan, has remained in the South over a month and a few of the Chinese papers have carried reports that because of this the Minister was preparing to move the British Legation to Nanking. When questioned concerning this point, Sir Alexander stated that the British authorities are not contemplating the removal of the Legation from Peiping to Nanking owing to the immense expense involved. One reason for his delay in going North has been the fact that his daughters all contracted measles upon arrival in Shanghai. In addition to personal reasons he has been making trips to Nanking, Hankow and other points in order to orient himself with that section of the country.

Faced with the necessity for finding some psychological platform upon which to base a plea for better unity in China, now that the anti-Japanese slogan appears unwise for violent publicity purposes, the National Government is backing a "New Life" movement. This campaign has been launched under the direct auspices of Chiang Kai-shek who on March 19th made a speech on this subject at the weekly Sun Yat-sen memorial service. General Chiang said in part that the present mode of living in China may be described as disorganized, depressed, indolent and unclean. He also said "The New Life Movement represents no new discovery. It embodies all the traditional ideas of our ancestors, such as Li Yi Lien Chu, or good manners, chivalry, honesty and decency. The movement seeks to make every Chinese a modern man and good citizen."

In various other cities celebrations have been held in honor of the establishment of the new movement and in Peiping no less a person than Dr. Chiang Mon-lin, Chancellor of National University, was among the speakers. The meeting was presided over by Mr. Chang Chi who came up from Nanking for that purpose. Chang Chi is a member of the Supervisory Committee of the Central Kuomintang and one of the old members of that party. He is a Japanese returned student. In his speech Mr. Chang called attention to the example of Germany who regained her pre-war position due to the efforts of her leaders. He stated that he would be willing to see Chiang Kai-shek become the Hitler of China if he could lead China to national recovery and greatness.

This "New Life" movement, if properly handled, may do much good for China. It will of course increase the power of Chiang Kai-shek despite the statements of Mr. Chang Chi to the effect that Chiang has no such ambitions. It is believed that this campaign was devised by the National Government in line with its policy as enunciated by Wang Ching-wei that "The Powers can help China only after we have put our own house in order" (see G-2 Report No. 8779, item 1). Such a movement will tend to keep students and others who might cause trouble busy with a new idea and assist in the policy of not actively antagonizing Japan. It is the belief of this office that the National Government will continue a policy of passive resistance against the Japanese hoping to build themselves up and solidify their position with other foreign powers. There is also believed to be the hope that this policy will postpone further aggression by the Japanese and that in the meantime Japan and Russia will become involved in war, a thing which most Chinese believe would be a blessing to China.

There have been no developments reported with reference to the much talked of Sino - Soviet non-aggression pact. It was hoped that with the arrival in Nanking of Dr. W. W. Yen (Yen Huai-ching), Chinese Ambassador to Moscow, some progress might be made in this matter. Indications point to the Chinese being more anxious than the Russians for some agreement, because the former desire to have something definite on paper with reference to Russian official opinion as regards non-recognition of Manchoukuo. The Soviet hesitancy can be explained on the grounds that in case of military operations in Manchuria, the Soviet Army would not wish to be hampered by a diplomatic agreement not to conduct operations upon territory which by non-recognition of Manchoukuo could by inference be considered still a part of China proper.

The sudden departure of M. Barkoff, Counselor of the Soviet Embassy in Peking, has caused some speculation. While generally given out that his return was due to the health of his wife, it is known definitely that he left as the result of a telegram from Moscow. Officials of the Soviet Embassy expect to hear in the near future whether or not M. Barkoff will return to China or be sent on other duty. His place in Peking will be taken by M. Ivan Spilvanek. This office does not believe that the departure of M. Barkoff has any special significance.

2. French Financial Interest in Manchoukuo.

M. Andre d'Oliver (d'Ollivier), the representative of the French National Association for Economic Expansion (see G-2 Report No. 8779, item 4), left Hsinking for Paris, via Siberia, on October 16th. According to the official Manchoukuo News Service, M. d'Oliver has reached an agreement with the officials of the South Manchurian Railway for the establishment of a Franco - Japanese consortium for the development of Manchuria. He is stated to be going to Paris for the purpose of having the agreement approved by the organization which he represents.

The projected firm will be known as the Societe Anonyme Consortium Franco - Japenais pour le Development des Affaires dans le Manchoukuo or in shorter form "S. A. Consortium Franco - Japonais", with head office in Dairen and branches in Hsinking and other places. It is understood that Colonel Junichiro Kobayashi has been appointed a member of the Franco - Japanese Committee which is expected to act as advisory body to the proposed consortium. Press reports state that M. d'Oliver's suggestions include a plan for the association to enter the contracting field in Manchoukuo public projects as well as to sell merchandise.

According to the French consular officials in Manchuria, M. d'Oliver has no authority to sign agreements with the Japanese, but is taking home with him possible plans with the hope of interesting French finance in his schemes. The optimistic despatches of the Japanese press and the Manchoukuo News Agency are believed to be mostly what the Japanese hope may come out of d'Oliver's trip rather than actual facts as to the establishment of the Franco - Japanese consortium as reported.

Further evidence of French interest in Manchuria is the trip of M. Alexandre Ramone and M. Paul Dalard, stated to be official representatives of the Societe des Grandes Travaux de Marseille, Societe Generale D'Entreprises, Entreprise Fougerolle, Societe de Constructions des Batignolles, Entreprises Ackermans et Van Haaren, all French engineering firms, who arrived in Dairen from Japan on March 20th. The Japanese papers quote M. Ramone as saying that the head of his party, a M. Perreau, is still in Tokyo where he is having discussions with Count Hirotaro Hayashi, President of the South Manchurian Railway, and also his assistant Mr. Yoshiaki Hatta. M. Ramone also said that his party intended to investigate the general conditions of the country as to the engineering field in every branch of public works, railway construction, road building, building construction, city planning and like projects.

While it must be realized that great publicity is being given both to M. d'Oliver and the engineers just mentioned, it is not believed that any actual agreement has been reached between French financial interests and the Japanese, despite Japanese claims and optimistic propaganda. As previously reported, the Japanese have been very anxious to secure French money for Manchurian development and, if successful, their position in their newly acquired "empire" will be greatly strengthened. There is no doubt that they also hope for recognition of Manchoukuo by France if French financial interests can be sufficiently involved.

3. Trial of Sinkiang Ex-Governor.

A great deal of interest has been aroused among the Chinese over the trial of General Chin Shu-jen, former Chairman of the Sinkiang Provincial Government, in the Kiangsu Provincial High Court (see G-2 Report No. 8728, item 3). General Chin is one of the old fashioned school who rose to power in Sinkiang about four years ago. He had been a provincial official under the rough and ready Yang Tseng-hsin who ruled the province with a hand of iron for some twenty years. Chin Shu-jen who had eaten Yang's rice for almost a third of that time joined forces with a military clique who were opposed to Yang and caused his assassination. In the confusion that followed Chin played his cards well and emerged ruler in Sinkiang with such a show of power that the National Government were forsed to appoint him as the new provincial Chairman.

Chin has been indicted on four counts:

1. For the purpose of befriending Soviet Russia so that he could receive arms and ammunition, General Chin signed secret treaties with Soviet Russia in October, 1933, without the knowledge of the Central Government and the treaties were found to be detrimental to the integrity of the Republic of China, thus violating the 118th article of the Criminal Code.

2. Embezzlement and misappropriation of public funds. General Chin was charged with having carried away $800,000 and 1,300 taels in gold bullions after he was ousted from his chairmanship, thus violating the first section of the 357 article of the Criminal Code.

3. Massacre and arson. Telegrams received by the Central Government from Sinkiang after his arrest in Nanking all indicate that during his tenure of office many cases of arson and murder had been committed by troops under his command.

4. Illegal occupation of people's property. General Chin was charged with having perpetrated the Sinkiang trouble by illegally occupying the property of Prince of Hami for the benefit of his relatives, thus violating the first section of article 348 of the Criminal Code.

The charges against General Chin was typical of charges that might be laid against almost any of the Tuchun type of official and indicate the sort of rule to which the Chinese, particularly those in the outlying provinces, were subject to under the old feudal lords. It is not claimed that even at the present day administration is free from such abuses, but the fact that some effort is being made to bring violent offenders to task for their misdeeds committed in the name of government is a hopeful sign. Feudal China cannot be modernized in a few years, nor is it believed it would be wholly good for the Chinese if such were possible. A colloquial proverb states that "A fat man is not the result of one mouthful" and administrative wrongs cannot be righted by the trial of one transgressor, but this action against Chin Shu-jen is indicative of a growing demand for better performance of governmental duties by responsible officials.

4. Manchoukuo Mission to Japan.

Following the enthronement of Pu Yi as Emperor of Manchoukuo in March 1st, the first move of the Japanese was to arrange for a mission of officials of the "Empire" to Japan to present the thanks of the new nation to the Japanese Emperor. This mission left for Japan on March 22nd and is said to consist of some twenty persons headed by Cheng Hsiao-hsu, Premier of Manchoukuo, and Hsi Hsia, the Minister of Finance. Cheng will be remembered as one of the advisers to Pu Yi who was largely responsible for placing him in the hands of the Japanese in 1924 (see G-2 Report No. 8779, item 7). Hsi Hsia is an old style Manchu who was Chief of Staff for Chang Tso-hsiang when he was Governor of Kirin Province under Chang Tso-lin and later his son, Chang Hsueh-liang. When the Japanese took over Manchuria, Hsi Hsia remained there and has obtained a lucrative post under the Japanese.

While in Japan the mission will be treated as State guests and an elaborate program has been arranged for them. According to the Manchoukuo News Service the itinerary of the mission is as follows:

March 25, arrival at Kobe at 7:30 a.m.; landing at 8 a.m. to Oriental Hotel; leave Kobe on the special train at 9:05 a.m. March 26, arrive Tokyo Station at 9:35 a.m. proceeding to the Imperial Hotel on the Imperial carriage specially despatched by the Imperial Household with guards of honor. At 11 a.m. the party will proceed to the Imperial Palace to be received into audience by His Majesty the Emperor, and later to the Palaces of H.I.H. Prince Chichibu and H.I.H. Marshal Prince Kan-in. In the afternoon an official call will be made on Premier Makoto Saito, all Ministers of State, and Imperial masters of ceremonies. March 27, at 10:10 a.m. they will be guests at the Imperial Banquet at the Imperial Palace, later to proceed to the Meiji Shrine and the Yasukuni Shrine. At 6:00 p.m. they will attend a banquet at Premier Saito's official residence. March 28, at 9 a.m. the group proceeds to Tama Imperial Mausoleum; at 6:30 p.m. attend a banquet given by Mr. Koki Hirota, Minister of Foreign Affairs, at the official residence of the Ministry. March 29, the party will attend a wild duck hunt at the Hama Imperial Detached Palace, and at 6 p.m. a banquet by General Senjuro Hayashi, Minister of War, at the Toyama Military School. March 30, will see a luncheon of the Army General Staff Office to be given at the Palace of H.I.H. Marshal Prince Kan-in, Chief of Staff of the Army General Staff, and at night a banquet at the Manchoukuo Legation. March 31, at noon they will be present at a luncheon by the Navy General Staff Office, headed by Fleet Admiral Prince Fushimi, at the Kasumigaseki Imperial Detached Palace. In the afternoon the party proceeds to the Imperial Palace to bid farewell by signing in the Imperial Registry. At 6 p.m. a banquet given by Admiral Mineo Osumi, Minister of Navy, at the official residence, will be attended.

While the Japanese have made a great deal of this good-will mission of Manchoukuo representatives there is no doubt that they are actually laughing behind their backs at them. It is doubted whether any Japanese of even moderate education cannot see through the whole farce and realize that Japan has made Manchoukuo what she is to-day. In fact this has been admitted by an American educated Japanese official who in his conversation with an officer of the American Government stated, among other things, that the stupid type of Chinese office holder was the kind the Japanese wanted in Manchuria. There are undoubtedly some of the former Manchu court that are blinded to the facts by their loyalty to Pu Yi and the desire to see him once more on the Dragon Throne, but it is believed that the majority of Chinese who have accepted positions under the new regime have done so purely for the emolument offered and the personal gain to be secured thereby. This is certainly the opinion of the Chinese inside the Wall. Criticism of the mission has been heard from even Manchu sources in China proper to the effect that the sending of such a delegation virtually amounts to the despatching of envoys from a tributary state to the acknowledged ruler as was done in former days in China.

5. American Officers in North China.

Major-General A. J. Bowley, U.S.A. from Hawaii, was a member of the "Lurline" cruise which visited Peiping the last of March. Formerly Military Attache at the American Legation before the World War, General Bowley was much interested to renew some of his contacts. He was entertained by General Ho Ying-chin, Minister of War, at his home in the Chu Jen Tang, Chung Hai.

Brigadier-General Stanley Ford, U.S.A. from the Philippine Islands, arrived on the U.S.A.T. "Grant" to inspect the American troops in Tientsin. After completion of this duty, General Ford made a quick trip to Peiping where he was the guest of the American Minister.

6. Situation in North China.

Very little is heard of any progress in the batterment of Sino-Japanese relations in North China. Huang Fu has been persistently unwilling to go to Nanking to ask for a more free hand in dealing with the Japanese because he no doubt was sure in his own mind that the National Government would be unwilling to yield in this matter. Their point of view can easily be realized as they do not want to give Huang Fu enough power to deal as the Japanese wish for fear that his nearness to the strong arm of the Kwantung Army might force him to concede points which Nanking could not ratify. Huang Fu has a most unenviable position and one that demands rather unusual ability. He is assisted considerably by his wife who is possessed of both brains and a charming personality, an outstanding example of a type of Chinese women who are making themselves more and more felt in educational and political activities.

Shortly after General Huang Fu recovered from a nose operation which prevented his going to Nanking (see G-2 Report No. 8789, item 6). Mr. Tang Yu-jen, Vice-Minister of Foreign Affairs and concurrently Secretary-General of the Central Political Council, arrived in Peiping. He is very close to Wang Ching-wei and his visit is believed to have been closely related to Sino-Japanese questions. While in Peiping he refused to make any statements to the Chinese press which criticised him freely and in a most uncomplimentary manner. On his departure he is quoted as saying that he was very pessimistic over affairs in North China. This may have been due to the fact that Chinese officials in Peiping state that Nanking cannot understand conditions in the North and that after a representative acquaints himself with conditions he returns to Nanking thinking as they do. Possibly Tang was too optimistic before his visit and returned with his eyes open to conditions as they really exist.

It is believed that what the Japanese are pressing Huang Fu to secure from Nanking is some sort of agreement concerning resumption of through railway traffic and postal relations between North China and Manchuria. It would appear that these are more desirable just now than any outward recognition of Manchoukuo, since a settlement of the railway and postal questions would amount to virtual Chinese recognition of the new empire. With this in mind it will be interesting to watch the result of Huang Fu's trip to South China. It is learned that his present plans contemplate leaving Peiping so as to be in his native town of Fenghwa, Chekiang, at the time of the "Ch'ing Ming", April 5th, at which time all Chinese are supposed to visit their ancestral tombs to see that the grounds are in proper order for the year. As Chiang Kai-shek also comes from the same district it seems most likely that conferences will take place between him and Huang Fu, either there or when Huang Fu passes through Nanking. While in the South, General Huang is expected to visit Hangchow, his birthplace.

Huang Fu is known to feel that the National Government is not placing sufficient confidence in him. Circumstances prevented his candidate for Mayor of Peiping, Hsu T'ing-nien, from returning to North China which was some loss of face for Huang as Hsu was his boyhood benefactor. As previously reported Hsu objected to the weight placed by some of the prominent officials upon the distribution of funds and left for Nanking to "celebrate Chinese New Year". Apparently the objections of the persons criticised by Hsu have carried sufficient weight to make it wise for him not to return to Peiping.

Worse than this change in Huang Fu's political plans was the slight given him by the appointment of General Ho Ying-chin as the head of the newly formed Mongolian Self-Government Political Affairs Committee. Huang as head of the political organs in North China feels that he should have had this position and that the appointment of a military man to such an important political position is a direct slap in the face directed at him from the Nanking Government. It is believed that this fact has no little to do with his plans to visit his ancestral home early in April.

Some slight excitement has been caused by the activities of General Sun Tien-ying in Ninghsia. Sun will be remembered as having been one of the few who fought the Japanese in defense of Jehol. The operations against him in Ninghsia were conducted by Fu Tso-yi, Chairman of Suiyuan, who, in addition to his own forces, borrowed some Shansi troops from his close friend Yen Hsi-shan. On March 24th. General Ho Ying-chin confirmed the report that Sun Tien-ying has resigned and left his troops and so another source of worry in North China has been temporarily smoothed out.

From confidential sources it is learned that the Japanese are much concerned with placing a loan on the Peiping - Suiyuan Railway and their efforts in this regard will be observed with much interest. Shen Chang, the Director of this road, has been on a trip to Shansi for the purpose of visiting Yen Hsi-shan and has just returned to Peiping. Shen is the son-in-law of Huang Fu. From Chinese sources it is learned that there have been a number of Japanese observed in Taiyuanfu recently, several of whom are stated to be connected with the office of the Japanese Military Attache. While this office has not been able to secure any definite proof of Japanese accomplishments in the field of the matters just mentioned, it seems very likely that some such efforts will be made in furtherance of the Japanese policy of extending their influence into the Northwest.

Okura and Company, a Japanese firm interested in loans and industrial projects, has been active in the past few days in securing Chinese coolies for work in Jehol. Many hundreds of peasants have been passing through Peiping on their way North in the hope of obtaining better wages. The majority of these appear to be from the Paotingfu area.

The amusing affair of Mr. C. Araki, "Diplomatic Officer" of the Japanese garrison (see G-2 Report No. 8789, item 6), is still being discussed. A reliable source who saw Mr. Araki in Tientsin after the Japanese had said that he had left, happened to mention this fact to one of the Japanese press representatives in Peiping. This Japanese went to see Colonel Shibayama, the Japanese Military Attache, who stoutly denied that Mr. Araki had been seen and interviewed in Tientsin. The Colonel went to another room and called Tientsin on the telephone, first stating to the Japanese reporter that while he was sure that Mr. Araki had gone he would verify it. The Japanese reporter overheard part of the conversation which took place wherein Colonel Shibayama remonstrated with some Japanese officer in Tientsin and reprimanded him for allowing Mr. Araki to be seen. After finishing the conversation, Colonel Shibayama returned and told the Japanese reporter that whoever had thought he had seen Mr. Araki in Tientsin was mistaken and that the latter was not there. He further stated that even though the visitor to Japanese Headquarters had seen and talked with a man who looked like Mr. Araki that it could not have been Mr. Araki. Colonel Shibayama had made up his story and was going to stick to it. The incident of Mr. Araki is an example which shows that members of the Japanese garrison in Tientsin, Japanese press representatives and even members of the Legation are not always on good terms with the military officials who represent the Kwantung Army.

S V Constant
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Major, Cavalry (D.O.L.),
Acting Military Attache.

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WAR DEPARTMENT

COMMENTS ON CURRENT EVENTS

March 30 to April 12, 1934

RECEIVED G/2 W. D. MAY 7 1934

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4. Japanese Activity in North China.
5. Soviet Military Attache.
6. German Influence in China.
7. Far Eastern Comment on Philippine Independence.
8. Dr. Rajchmann's Departure.

1. The Sino-Japanese Situation.

There is no doubt but that the situation in North China is the most serious problem confronting the National Government at this time. Ever since the appointment of Huang Fu as head of the Peiping Branch Political Readjustment Council he has borne the brunt of the Japanese pressure. A thankless job at best, even his enemies will have to admit that he has done the only thing possible in a bad situation, and has endeavored to satisfy the Japanese with but little authority delegated to him by the Central Government.

Now it looks as though the situation had reached an impasse and that the Japanese were demanding a showdown. It is believed that while for the present they will not encroach further upon the territorial integrity of China, they will continue to push their influence and economic penetration. With this in mind it would seem that the restoration of through rail traffic and postal relations between North China and Manchuria are of paramount importance and it is believed that the recognition of Manchoukuo by China would not be regarded as vital just now by the Japanese. Should the rail and postal questions be settled it would amount to a tacit recognition anyhow, and the Japanese would start work again on that point.

General Huang Fu, after many rumors pro and con, finally left Peiping on April 3rd for the purpose of visiting his ancestral tombs. It should be noted, however, that he went first to Hankow then to Nanking and later to Nanchang to see Chiang Kai-shek. He arrived in Nanchang on April 6th, and has had several long discussions with the Generalissimo. On April 10th Mr. Wang Ching-wei, the Chairman of the Executive Yuan, left Nanking for Nanchang on the gunboat "Chung Shan", accompanied by Admiral Chen Shao-kuan, the Minister of the Navy, and Mr. Tseng Chung-ming, the Vice-Minister of Communications, who was at one time Wang's secretary. Before his departure, Mr. Wang gave out a statement to the press to the effect that he expected to remain in Nanchang two or three days for the purpose of discussing affairs in North China with General Chiang Kai-shek and General Huang Fu. It is certain that these present conferences at Nanchang are among the most important to China that have ever been held and their outcome is awaited with the greatest interest.

From well informed official sources it is learned that Huang Fu has reached the limit of his ability to mediate between Nanking and the Kwantung Army. The slight recently given him by the appointment of General Ho Ying-chin as head of the new Mongolian Self-Government Committee seems to have been the last straw and Huang Fu felt it more keenly than would appear on the surface. In official circles in North China there is expressed considerable doubt as to whether or not he will return to Peiping, and there is a general feeling that he will not do so unless the Central Government sees fit to give him more freedom in dealing with the Japanese.

Should Huang Fu not return it is difficult to say who would take his place not only from an internal political point of view but whoever the appointee, he would have to be acceptable to the Japanese, and such a man would be hard to find. General Shang Chen (see G-2 Report No. 8799) is a possibility, but it is not known how the Japanese would look on his appointment. When Huang left Peiping, the Rengo despatches carried an interview with a spokesman of the Japanese Military Attache's Office which is worthy of note and is given below:

> "With the trip of Gen. Huang Fu to the south, comments are rife on questions relating to the establishment of through railway and postal communications between North China and Manchukuo. It may not be amiss for us to express our views on the subject at this juncture.
>
> "The peaceful conditions now established in North China and benefits derived therefrom can be considered to be the fruit of the so-called Tangku Agreement concluded between the Chinese and Japanese authorities; of that we are sure none can disagree. Since then, the Kuantung Army has been faithfully occupied in the execution of the Agreement, physically and metaphysically, as attested by facts. To be more precise, numerous unauspicious events that broke out, or were about to break out in the demilitarized area, were removed by the just attitude and appropriate measures taken by the Army, whereas Shanhaikuan, Kupeikou and other places have been handed over to the Chinese side. In return what have the Chinese authorities performed during the past ten months? They have made no attempt to settle any of the various provisions made in the Agreement. Understanding the difficult position in which the Chinese authorities are standing, there is a limit in everything, and we cannot wait indefinitely.
>
> "When through railway traffic and postal communication are established, the party that will derive benefits is obviously the Chinese brethren. But, to our great regret, whether they fail to notice that or purposely, the Central Government do not permit these things to be carried into effect.
>
> "We are fully alive to the existence of a delicate state of affairs in connection with the establishment of through railway traffic and postal communication insofar as China does not recognize Manchukuo. But we believe steps can be taken locally and temporarily to get over the difficulty. We cannot permit ourselves to believe that the Chinese authorities, shrewd as they are, are unable to hit upon proper measures. We sincerely hope that they will think out an expedient suitable to the local conditions and settle the pending questions as soon as possible, for the sake of the happiness of people in North China, and tranquility and unification of China in general, so that the sense of uneasiness and disagreeableness can be swept away."

The above was actually written by Major N. Yahagi, the newly appointed Assistant Military Attache, but of course had the approval of Colonel Shibayama. While it is amusing in its affrontery it is a dangerous indication of how powerful an influence may be exerted on the destinies of Asia by one man who represents the Japanese military machine. The diplomatic representatives of the Japanese Government remain inarticulate while Colonel Shibayama, himself supposed to be an official attached to the diplomatic mission, is allowed to comment publicly on matters of national policy. This can be explained in one of two ways, either the Japanese Foreign Office is completely cowed by the military or else they are working together and allowing the military to dictate a strong arm policy towards China while the diplomats step in and make terms less severe but satisfactory to Japan.

In the light of recent events the latter seems more likely to be the case, and it will be noted that the Japanese Ambassador announced his plans to leave for Japan on April 20th. This will give Huang Fu ample time to discuss the situation with Chiang Kai-shek and Wang Ching-wei and for the National Government to arrive at some decision with reference to a policy vis-a-vis Japan in North China.

A brighter side to the picture was painted by the Minister of Finance, Mr. H. H. Kung, who broke into print for the first time in some days with a statement to the effect that the situation in North China was not as serious as it appeared or was reported in the press. He also stated that the trip of Huang Fu had no special significance which of course is not logical. In fact Reuters report from Hankow gives interviews of Huang Fu with members of the Chinese press in which statements are given to the effect that his trip was for the purpose of conferring with the various leaders of the National Government concerning the diplomatic situation in North China and to ask for instructions.

It is the belief of this office that if Huang Fu returns to Peiping it will be with sufficient authority in his hands to effect some compromise with the Japanese regarding better economic relations between North China and Manchuria. If Huang Fu does not return the situation will be fraught with serious possibilities of further trouble in the North.

2. Foreign Interest in Chinese Aviation.

China with its vast possibilities for commercial exploitation has been for many years the focal point of foreign economic penetration, which has taken many forms. Just at present there seems to be a rush to sell articles capable of military use. This has been given added impetus by the interest of the Chinese Government in aviation matters.

So far the United States has been ahead in the sale of planes, but the British and Italians have entered the race. The British have an Air Attache in Shanghai (see G-2 Report No. 8754, item 7) and the Italians have sent an air mission through an arrangement between H. H. Kung, the Minister of Finance, and Premier Mussolini (see G-2 Report No. 8728, item 7). The Italian sales propaganda has been aided by the recent trip of Colonel Mario di Bernardi and his efforts to sell himself to the Chinese Government in the capacity of aviation adviser, as well as to place orders for Caproni planes.

Up to the present the American group headed by Colonel John Jouett, formerly with the United States Army, which has had the backing of T. V. Soong, has been given practically a free hand in aviation matters. Now for the first time it looks as though the anti-Jouett crowd composed mostly of the pilots that failed to qualify at Hangchow and various other political groups, aided by H. H. Kung who is trying to justify his deal with the Italians, is succeeding in making some headway.

The first check to central control of the Air Corps, fought for by Jouett with the backing of Soong, was evidenced when Chiang Kai-shek ordered the Central Aviation Bureau moved from Hangchow to Nanchang. Only a few officers in each department have been left in the former location. The reason for the move no doubt is partly the desire of Chiang to have his fingers on the controls but it will likely work to the detriment of the Chinese Air Corps, since the same efficiency cannot be expected without the vital figure of Jouett at the helm. At the same time the Italian instructors were taken to Nanchang where they are in charge of the bombing instruction which is now given entirely at that place.

This will place them close to the throne where they will have an excellent opportunity to undermine Jouett, in which they will be aided by the various elements opposed to him. In addition to the political appointees whom Jouett's policy has replaced by qualified fliers, there is an element which is in favor of purchasing equipment other than American. Prominent in this class is General L. E. Dzau, a graduate of the U.S.M.A., 1918, who is now pushing the sale of British or Italian planes. It is known that he is an enemy of Jouett's due to some disagreement over the sale of the Curtiss - Hawk planes sold by Major Doolittle. Unfortunately for American prestige these Curtiss - Hawk planes have not measured up to what was expected of them.

With the interest of the Italian commercial organizations in China has come considerable governmental comment and also newspaper publicity from the Italian press against Japanese imperialism. The reason for this may well be a gesture on the part of Italy to convince China of her friendship. It would seem reasonable for Italy to hope that the seeds of verbal opposition against Japan will blossom into the flower of Sino - Italian friendship and later bear fruit in the purchase of Italian aviation equipment by China.

3. Soviet - Japanese Relations.

Conversations are still in progress between Mr. Hirota, the Japanese Foreign Minister, and Mr. Yurenev, the Soviet Ambassador to Japan, concerning the sale of the Chinese Eastern Railway. From all reports it appears that there are still differences of opinion between the views of the two contending parties and that Mr. Hirota is stepping into the breach in an effort to bring the matter to a satisfactory conclusion. Japanese sources seem optimistic over an early resumption of negotiations. The Asiatic is well known for his ability to wear down an opponent by virtue of passive resistance and it will be interesting to see the result of the contest between two such forces, since the Russian must be considered as having his proportionate share of Asiatic characteristics.

Soviet - Japanese relations were given another setback on March 31st when the Soviet Foreign Office in Moscow announced that Mr. Slavutsky, the Soviet Consul-General in Harbin, had protested to the Manchoukuo authorities against the actions of Japanese gendarmes in raiding schools and clubs operated for the employees of the C.E.R. It is understood that Mr. Slavutsky's protests included a demand for the release of Soviet citizens who had been arrested and held by Japanese police.

Further fuel for the fire was added when the case of the Soviet bombing plane took a most unusual turn. This plane landed in the Mishan district of Kirin on March 11th supposedly due to engine trouble. The Soviet authorities made requests for the extradition of the two occupants and return of the plane, but the authorities have delayed for the purpose of supposed investigations. The latest report is that the aviators have been released but that they are deserters who flew to Manchoukuo to escape persecution from the Soviet O.G.P.U.!

The whereabouts of the two occupants of the plane is unknown. A most reliable observer who saw the plane stated that it looked as though there were bullet holes in the fuselage of the plane.

Considerable apprehension is being felt by the Japanese military concerning Soviet activity around Lake Baikal. This would seem to fit in with Soviet reports that work on transportation arteries was planned in that area. Mr. Spilvanek, the representative of the Soviet Government in Peiping, stated that the Soviet Government has entertained schemes to build a railway north of Baikal for some time but that more important projects had been given priority. He remarked that the necessity arose from the increasing importance of the Yakutsk section along the Lena River. This part of the country has an outlet to the Arctic by river but that due to necessity for better communication, the Soviet Government was planning to build a railway from some point between the Yenissei River and Irkutsk, running north of Lake Baikal to connect with the Amur Railway. Mr. Spilvanek said that of course this road was for purely commercial use, but it is quite obvious that it has its military value. According to Mr. Spilvanek who has travelled extensively in Siberia, the terrain over which this road must go is very difficult for railway construction and the project would be a serious undertaking.

4. Japanese Activity in North China.

Another indication that the Japanese are worried over Soviet activities in the Far East is their increased interest in extending their influence into Inner Mongolia and North China. Chinese sources state that Japanese military officers and representatives of the South Manchurian Railway have been arriving lately in Chahar, Suiyuan and Hopei provinces and that they have been travelling along the Peiping - Suiyuan Railway, through Tatung into Shansi and even further south along the Lung - Hai Railway. This office has been aware for some time of a continual stream of official and unofficial Japanese "tourists" but no definite proof of their activities is available.

It is not believed that these special investigators have any direct relation to the "Resident Officers" which the Japanese keep in all important places in China and which are part of their regular military establishment working under direct orders from the General Staff in Tokyo. In answer to question contained in Evaluation Report dated February 23rd, there is no evidence that these men are maintained under the "Twenty-one

Demands". Chinese officials both military and civil state that they know these officers exist and they try to keep informed regarding them, but they are not carried on any official list by the Japanese authorities and hence it is very difficult for them to keep an accurate check on their activities, particularly as they change station frequently. The Japanese Military Attache in Peiping, Colonel Shibayama, who has just returned from an inspection trip to the Kupehkow area left for Taiyuanfu, Shansi, on April 8th. He stated that he intended to visit Tatung and then go on to Paotow for the purpose of investigating conditions in that area.

Okura and Company, the same firm that has been recruiting laborers for Jehol (see G-2 Report No. 8797, item 6), is trying to collect money for various kinds of equipment which they have sold the Peiping-Suiyuan Railway. The Manager has been busy entertaining certain advisers of the Peiping Branch Political Readjustment Council during the past few weeks but there are no signs that any financial arrangement has been reached. The fact that this railway owes money to Okura and Company may well account for some of the interest that has been evidenced toward it recently by the Japanese.

An interesting rumor started in Peiping not long ago to the effect that the Japanese were investigating with reference to taking over the power plant in the Legation Quarter. Mr. Shoichi Nakayama, 1st Secretary, who has just been promoted to the rank of Counsellor, stated confidentially to a reliable source that he had heard that the power company was in bad financial condition and had suggested to the South Manchurian Railway that they look into the matter of acquiring this project. He further stated that they replied to the effect that the Kwantung Army had made so many demands on the resources of the S.M.R. recently that the proposition could not be considered.

In connection with the promotion of Mr. Nakayama and his retention in Peiping when current reports predicted his speedy transfer, it is learned from reliable sources that whereas formerly he was not working in harmony with the military, he has now had a change of heart and is willing to cooperate satisfactorily. From remarks passed by junior officials of the Japanese Legation, it is apparent that the new Counsellor is far from being popular with members of his own official family.

There has been no recent progress in the retrocession of more of the Great Wall passes to nominal Chinese control. Reports have been current that the pass at Malanyu would soon be returned but this has not been done and the Japanese and Manchoukuo forces are still located there with detachments guarding the Tung Ling or Eastern Tombs of the Manchu Emperors. At the time of the "Ch'ing Ming" festival there were rumors that Pu Yi would visit his ancestral tombs under Japanese guard, and the establishment of a flying field at Malanyu caused the report that he would fly there from Hsinking. There is evidence that a plan to this effect was actually made, but so far it has not materialized. The fact that the Manchu Tombs are close to the Great Wall just east of Malanyu is enough reason for Japanese reluctance to relinquish control over that section, and it is not anticipated that they will do so in the near future.

5. Soviet Military Attache.

"Commander" Lepin has been appointed Soviet Military Attache to China and has just landed in Shanghai. The officials of the Soviet Embassy refer to him as "Commander" but in any other country he would rank as a general officer since he has been in command of an army corps at various times. He has also served a tour as Military Attache to Poland.

6. German Influence in China.

The influence of the German military advisers to the National Government has already been commented upon in previous reports and there is no reason to feel that it is not as important as ever. The majority of them are capable men and they have done a great deal in assisting Chiang Kai-shek to build up the troops of the National Government and the various military schools.

In answer to a question in Evaluation Report dated February 23rd, this office sees no indication at this time that they are being used in any German - Japanese alignment to influence China against Japan. Neither is there any evidence to show that the German mission has favored Japan in any way, and through various circumstances, personnel of this office have been in the best possible position to know if such were the case.

The departure of General Wetzell and his replacement by General von Seecht is not unusual nor unexpected. It has been evident that Wetzell and the Chinese authorities have not been always in accord and it is believed mutually satisfactory to both sides that he give up his post. General von Seecht has just arrived in Shanghai. His arrival is not expected to change the policy of the mission except where his individual ideas with reference to the work of the mission would be concerned. There will be no doubt some changes in personnel as might be expected with a new chief adviser, but as stated above there seems no reason to think that the German advisers have any such plan to favor Japan.

7. Far Eastern Comment on Philippine Independence.

There is no doubt but that the British are much concerned over the future of the Far East. This is shown in many ways. The Singapore Naval Conference (see G-2 Report No. 8765, item 2) brought the matter into the public eye, but even before that the "solidarity of the white races" was becoming a phrase more often on British tongues than previously. It is evident that many British who have been long convinced of their own superiority are now beginning to wonder what will happen to their interests in the Far East should the United States get out of the Philippine Islands.

The Tydings-McDuffie Bill, according to press reports out here, provides for the independence of the Philippines after a transition period of some ten years. It provides for the withdrawal of the United States Army and also for the giving up of naval bases by our Navy. Whatever arrangement may be made regarding the independence of the Philippine Islands it is safe to assume that they will be eventually just as independent as Manchoukuo. Japan will be without question the dominant factor in the Far East and as such a threat to the commerce of Great Britain and the sea lanes to India and Australia. This is what England fears and to the British General Staff in Hongkong, the spectre of a Japanese base on Formosa without the Stars and Stripes on Luzon is a serious matter, as anyone knows who has talked with officers of the British establishment.

The Chinese of course are most pessimistic over the action of the United States. They feel that with the giving up of the Philippines the United States is definitely withdrawing from a commercial interest in this part of the world, and believe that when the United States leaves the Philippines she should also give up any idea of successfully competing against Great Britain and Japan for trade in China.

Prominent Chinese in and out of official positions can only see a Japanese occupation of the Philippine group upon some convenient pretext as soon as opportune after the United States evacuates. They base their opinion upon the historical precedent of Formosa, Korea, Manchuria, Jehol and the Mandated Islands. Many are frank to admit that they believe the fact that the foreign Legations were in Peiping and the presence of foreign troops in North China were the only things that saved it from actual Japanese occupation last year.

Several of the Chinese intelligensia who are well in touch with the political and military situation have asked regarding the withdrawal of the American troops in Tientsin when we give up the Philippines. They remarked that they considered the presence of the 15th Infantry as a tangible evidence of American interest in China and believe that such is a help against unrestrained Japanese aggression. For the same reason they are opposed to the removal of the foreign Legations from Peiping as they believe their presence there assures the integrity of North China more than any other factor. This opinion could not be expressed publicly by these men for obvious political reasons and while these views are held by some men actually in the Government, it is not given as an expression of what this office believes to be "governmental opinion". However, it is a pertinent reaction observed in the minds of certain responsible Chinese and is reported for that reason.

8. Dr. Rajchmann's Departure.

The plan of Dr. Paul Rajchmann, Director of the Public Health Section of the League of Nations, to sail from Shanghai on April 10th has led to some comment as to the reasons for his departure. It is known that there has been some dissension in the ranks of the "experts" and other obstructions to their work (see G-2 Report No. 8759 - Confidential). However, it seems reasonable, in the absence of concrete evidence that the situation is serious, to accept, for the present, the following statement which was given out on April 4th by the information office of the technical organizations of the League of Nations in Nanking:

> "The next session of the Council of the League of Nations will begin at Geneva on May 14, and its special committee for technical collaboration with China will meet at the same time to consider the report of its technical delegate.
>
> "Dr. Paul Rajchmann, Director of the Health Section of the League of Nations, is accordingly leaving China

next week to attend the meeting in Geneva.

"Dr. Rajchmann's report to the Council Committee will be published simultaneously in Nanking and Geneva next month."

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COMMENTS ON CURRENT EVENTS

April 13th to 26th, 1934

RECEIVED G/2 W. D. MAY 22 1934

1. "Hands Off China."
2. China, Japan and the Nanchang Conferences.
3. Central Government Affairs.
4. Boom Times in Jehol.
5. Situation in North China.
6. Mongolian Political Council.
7. National Economic Council.
8. Sino - Soviet Treaty?

1. "Hands Off China".

Just as the Far East was beginning to wonder concerning the soft words quoted as coming from Mr. Saito, the Japanese Ambassador to Washington, and to digest the Peary Day celebrations of goodwill between Japan and the United States, they were subjected to a rude shock on April 17th when an informal statement from the Japanese Foreign Office appeared in the press as follows:-

> "In view of the fact that the restoration of order in China depends on China herself, Japan cannot help opposing any of China's measures contrary to the peace of the Orient.
>
> "Also Japan will object to measures on the part of other Powers likely to lead to disturbance of the peace of the Orient.
>
> "For example Japan will object to providing China with military aeroplanes and military instructors and political loans."

This statement was at first taken with a grain of salt as possibly in error. Japanese officials in the Legation in Peiping stated privately that the statement was "amazing, if true". No doubts, however, were to be left in the minds of the world, for on April 22nd the Japanese Ambassador in Washington, Mr. Saito, was quoted in a Reuter despatch as follows:-

> "Japan would regard it as an unfriendly act if foreign countries with commercial interests in China ignored Japan's request that she be consulted before transactions were concluded, declared Mr. Saito, Japanese Ambassador to the United States, interviewed by the Washington Star. He added that foreign nations have not the remotest idea how to deal with Chinese.
>
> "Mr. Saito mentioned that a group of French bankers were floating a loan to China in the European market, which "considerably worried his Government.
>
> "If foreign business representatives ignored Japan's request responsibility would fall on the Chinese Government.

"Asked whether Japan might not have co-operated with the other powers regarding control of China, Mr. Saito replied that such co-operation might have been possible some time ago but not since the Manchukuo crisis."

These statements reinforcing rather than ameliorating the original report from the Japanese Foreign Office possess potentialities of becoming a re-statement on a wider basis of the famous "Twenty-one Demands" of 1915, and the reaction of Great Britain and the United States is awaited with much interest in China. Great Britain, according to press reports of April 23rd, has sent a note to Japan re-affirming the British Government's adherence to the Nine-Power Treaty and refusing to recognize Japan's right to alter treaty obligations unilaterally.

The action of the United States is looked for here with particular interest, since Mr. Saito is further quoted as calling attention to the sale of American airplanes in China and that the American Wheat and Cotton Loan was not being used for proper purposes but was being converted into military uses. Thus it is the general opinion that the Japanese statements, while made as regards China, are a direct challenge to the United States.

It is known that Japan has been alarmed at the expansion of Chinese aviation (see G-2 Report No. 8787) and the recent plan to establish airplane factories at Hangchow and Canton using American equipment has been considered only in the light of United States help to China against Japan. Then too the recent departure of Mr. Rajchmann with his report to the League of Nations coupled with T. V. Soong's statement of China's plans to continue cooperation with the League have all caused Japan much concern as she is playing a lone hand. Whether or not, as some Chinese think, the announced policy of the United States to get out of the Philippine Islands had anything to do with Japanese actions is not known. It seems to be the general opinion that Japan has sensed the critical time for reasserting her hegemony aims in Asia and has thrown down the gauntlet to the world in general and the United States in particular.

So far China's action against the new "Hands Off" policy of Japan has been to issue an informal statement from the Foreign Office to the effect that no state had a right to claim the exclusive responsibility for maintenance of peace in any part of the world. Among other points it called attention to the fact that China as a member of the League of Nations feels it her duty to promote international cooperation but does not harbour the intention of injuring the interests of any particular country, far less of causing disturbance to peace in the Far East. The statement particularly pointed out that collaboration between China and other countries, whether from loans or in the form of technical assistance, had been of a non-political nature and that purchase of military equipment and employment of foreign instructors had been solely for the purpose of national defense, chiefly consisting in the maintenance of peace and order. It is also reported that the National Government has issued instructions to its envoys abroad but the details have not been given out.

Judging from events that have taken place to date, it would seem that China will continue her policy of depending upon the League of Nations and hoping that the other nations of the world will not submit to Japan's latest threat of domination in the Far East.

2. China, Japan and the Nanchang Conferences.

During the past two weeks all eyes in the Far East have been focused upon Nanchang where Chiang Kai-shek, Wang Ching-wei and Huang Fu have been meeting in a series of conferences. There is no doubt as to the main topics of conversation and if any remained the Japanese have taken pains to let all know what they regard as vital subjects for discussion.

Despite the rumors, conjectures and denials emanating from all sources, it is quite evident that the "Big Three" - Chiang, Wang and Huang - have been engrossed with the problem of finding an answer to the pressing question of a satisfactory solution for affairs in North China. This problem has many ramifications which center around the hub of closer commercial relations between North China and Manchoukuo. The most outstanding are believed to be the resumption of through railway traffic from the Peiping-Tientsin area to Mukden and the opening of the mails between Manchoukuo and China.

During these conferences Japan has spared no pains to apply pressure and propaganda to China by such means as press statements given out by their Military Attache in Peiping (see G-2 Report No. 8804, item 1) and rumors of delayed departure for Japan of the Japanese Minister to China who was supposed to be awaiting a message from the Nanchang conference table as to what China was going to do vis-a-vis Sino-Japanese relations in North China. Also visits of Japanese military and civilians to various parts of North China have been announced - just another means to create uneasiness in that area and hasten the action of the National Government. It is true these parties have been traveling as noted, but like parties, official and unofficial, have been in the habit of touring China - especially in the north - for years. A concrete proof of this activity is the railway guide book of China published by the S.M.R. - than which a better military intelligence handbook would be hard to find.

However, despite the high hopes of many observers, it is not believed that any clear cut policy will be announced by Nanking as the result of the Nanchang conferences, important as they have been. Decisions were made but it is not believed they have been crystalized into any clear cut decision as we know it. It is believed that Huang Fu will be given some authority or else he will stick to his verbal "resignation" and not return to Peiping. He is now resting near Hangchow and it is announced that he will remain there several weeks before returning to North China. Here commences the first step of what is believed to be another phase of passive resistance against Japan. This policy of giving in step by step to Japanese pressure is condemned by many but the Chinese all say that no matter what they concede the Japanese demand more - so they gain by delay. The only other means is direct opposition to Japan which would no doubt leave China worse off than ever - save for the moral satisfaction to the Chinese of having stood their ground.

It is still the belief of this office that Japan will use every means short of actual force to secure her desires in North China but that she is too worried over the threat of Russia to extend herself further at this time. This is further borne out by a recent inspection of Jehol by officers of this office (see G-2 Report No. 8814).

Central Government Affairs.

While the Nanchang conferences present none too bright a picture for China's foreign relations, her internal political situation has become more hopeful in some respects. As the result of political log-rolling aided by the strategic concentration of National Government forces in Fukien following the crushing of the rebellion, there is at last some evidence that the unstable element of the Southwestern Political Council is becoming more tractable. Like the old story of the castaway on the desert island they are always "ag'in the government" no matter what government is in power and if some means has been found to cause their admission to the fold it will indeed be a worthy accomplishment. There are also indications that the military leaders are favoring closer relations with Nanking and the recent "inspection trip" of the four ranking men in Canton's air force to the United States leaves that unit free of any great opposition to such a move.

It has always seemed certain that Chiang would demand the disbandment of the Southwestern Political Council, but it is understood some scheme is on foot to reorganize them into a body similar to the Peiping Branch Political Council. Such an organ might solve the problem if a man like Tang Shao-yi would head it as he would be acceptable to Canton.

Whatever agreement may be made with the South it is certain that the financial burden of the National Government will be increased because of it. Despite the feeling of satisfaction apparent in governmental circles over the possibility of a settlement with the Southwestern politicians, there is concern expressed regarding the ability of the treasury to handle the matter. It has been apparent for some time that H. H. Kung was not finding the Ministry of Finance as easy a job as he with his characteristic enthusiasm had anticipated, and to an outsider the actual solution for the financial problems of the National Government is not evident. In theory if only the expenses are cut the surplus due to the increased revenues will soon bring China out of the red. In actuality the Chinese Government is faced with a very difficult task. It is true that revenues have increased but with money in prospect, the ways for spending it have appeared. The bandit suppression campaign of Chiang Kai-shek is believed to have taken much more money than actually required for results accomplished. The difference between funds asked for and funds needed was expended by Chiang Kai-shek in building up his military establishment. This is but one example of a long series of like events since Chiang's domination of the Nanking Government.

Then too every new project entered into by the National Government necessitates the establishment of extensive technical and advisory staffs. To the personnel really needed are always added a generous number of relatives of officials, an ancient, honorable and inevitable Chinese custom. The outlook is far from encouraging. Yet one should not be too pessimistic, as it is the same cycle of events that has taken place in China for generations, but things go on somehow.

Just now the Central Government is again in need of more funds to carry out its extensive reconstruction ideas. Every province is asking for money and in some the monthly subsidy from Nanking is the price of loyalty and obedience to Central

Government dictates. With the need for funds the question naturally arises as to where these may be obtained. As time goes on the chance that European nations or the United States will provide capital becomes less. There is one outside source left - Japan. Here China is on the horns of a dilemma. Should Nanking be unable to meet the demands of sectional leaders for funds there is always the chance they may break away from the Central Government. On the other hand should the Government borrow money from Japanese sources there is certain to be an internal upheaval, greater than any sectional or provincial revolt.

4. Boom Times in Jehol.

According to observers from this office who have just returned from a trip to Jehol, there is great commercial activity in that area. New business firms are opening up, especially in Jehol city, shops are being renovated and Japanese hotels and geisha houses are prominent. There is also great activity in road building and this and work on Chaoyang - Lingyuan - Jehol (Chengteh) railway appear to be competing on the labor market for coolie labor to the extent that there has been a considerable influx of labor into Jehol. This confirms the movement of laborers to the north as previously reported.

There does not appear to be any compulsion by the Japanese to plant poppy. However, the harvest from a mou (one-sixth acre) of land is said to bring the farmer from eighty to one hundred and ten dollars when poppy is planted as against thirty to forty for other crops. These figures were obtained from local farmers in Jehol and while subject to customary provincial inaccuracy are believed to give a fair picture of the attractiveness of the poppy planting. The Jehol government has a monopoly on the purchase of all this material, and the penalty is visited on the farmers not for planting poppy but in case they do not sell it to the Manchoukuo authorities. An amusing item appeared not long ago in one of the Japanese papers stating that insidious propaganda to the effect that the economic conditions in Jehol had suffered since incorporation in Manchoukuo was false, as a bumper poppy crop was anticipated this year!

5. Situation in North China.

In North China political affairs are at an outward stalemate awaiting word from Nanchang. It is rumored that a movement is on foot to make the Peiping Branch Political Council definitely senior to the Peiping Branch Military Council. This would curtail somewhat the powers of General Ho Ying-chin, the Minister of War, who is now in Peiping and give Huang Fu control over the military as well as the political affairs in the North. It will be remembered that Huang suffered considerable loss of face when Ho was appointed Chairman of the Mongolian Self- Government Political Affairs Committee (see G-2 Report No. 8797, item 7). The fact that General Ho first declined the position on the Mongolian Committee but since Huang Fu has been in Nanchang has accepted the office, lends considerable color to this rumor.

The internal political situation has been considerably bettered by the increased willingness of General Han Fu-chu, Chairman of Shantung, to cooperate with the Central Government. Shantung is one of the critical areas in China and has always been the scene of Japanese interest and activity. Forced out of military occupation of the German holdings at Tsingtao as a result of the Washington Conference, the Japanese have spared no effort to increase their commercial influence and penetration into Shantung. It is known confidentially that Han was very anxious to secure foreign cooperation, particularly American, against Japanese pressure and failing to secure it decided that his best anchor to windward was to secure assistance from Chiang Kai-shek, even though to do this would jeopardize somewhat his freedom of action. It is known that representatives of Han have been visiting Chiang and vice versa and from the fact that planes of the National Government assisted in operations against the forces of Liu Kuei-tang, it would seem that some basis for better cooperation had been established.

With reference to Japanese interest in the Peiping - Suiyuan Railway (see G-2 Report No. 8797, item 6), it is learned from confidential sources that in 1923 and 1924 this railway concluded two loans with the now defunct Oriental Development Company for three million Mexican dollars each. These with accumulated interest amount to about ten million dollars and were mainly used for the purpose of extending the line to Paotow. It is understood that Okura and Company are now trying to collect this money. In addition to this the Mitsui Company, acting for the American Locomotive Company, has a claim against the railway for about one million five hundred thousand dollars U.S. currency for equipment.

Mr. Nakayama recently promoted to be Counsellor of the Japanese Legation in Peiping has been ordered to Tokyo and left on April 25th. Mr. Nakayama was in charge of the Legation during the recent Japanese operations in North China and was prominent in the Tangku armistice negotiations. It was understood that his decision to cooperate with the military had assured his remaining in Peiping and his transfer comes as a surprise to many of the Japanese. He has been relieved by Mr. L. Wakatsugi who will have the rank of First Secretary. Mr. Wakatsugi has served in London and Paris and was formerly Consul-General at San Francisco. His wife speaks English and French well, and both of them appear to be above the average in intelligence.

6. Mongolian Political Council.

During the past two weeks various Mongol leaders have been converging on Pailingmiao in anticipation of the inauguration of the Mongolian Self-Government Political Affairs Committee, often called the Mongolian Political Council (see G-2 Report No. 8789, item 1). This was scheduled to be convened on April 23rd, but due to lack of communication facilities, it is not known whether sufficient of the Mongol leaders had arrived by that date for the installation of the Council.

As noted above, General Ho Ying-chin at first was unwilling to serve but later accepted the post as Commissioner for the Guidance of Mongolian Autonomy. General Ho will not go to Pailingmiao, but will be represented by Mr. Ho Ching-wu. Mr. Ho is no relation to General Ho though the family names are the same. He is reported to be quite an able man and was formerly one of the heads of the Peiping-Hankow Railway.

7. National Economic Council.

Mr. T. V. Soong, former Minister of Finance, and one of the Standing Committee of the National Economic Council (see G-2 Report No. 8759) arrived in Kaifeng, Honan, on his way to make an inspection trip of the Northwest. According to Mr. Soong the chief purpose of his tour was to study rural conditions, river convervancy, communications, mining and other enterprises in the provinces of Honan, Shensi and Chinghai as a preliminary step to the carrying out of the Council's reconstruction projects. When in Sian, Mr. Soong will confer with many of the technical experts who have been sent out previously to make surveys in their respective fields. He also announced that upon his return he would start work on the putting into practice China's reconstruction schemes in cooperation with the League of Nations.

In reply to remark contained in Evaluation Report dated March 22nd as to the present position of T. V. Soong, it is believed that as head of the National Economic Council he will still yield considerable power, which he will do his best to increase. He is a very able politician and has been a consistent backer of the policy that China must continue to seek unification by reconstruction and cooperation with the League of Nations. His family connections, one sister married to H. H. Kung, Minister of Finance, another to Chiang Kai-shek and a third the widow of Sun Yat-sen is also a factor in his favor, particularly in China. He is a man of real ability and while conditions for the time being have taken him out of the limelight, he is still a figure to be reckoned with and when the National Economic Council becomes more powerful, which there is every reason to believe will take place, Soong will be even stronger. It must also be considered that acting from behind the scenes he can often exert more influence than if he were surrounded by the official restrictions of a Cabinet position. It is known that his policies have at times been not in accord with those of Chiang Kai-shek, but it is believed that they would work together in any serious issue.

8. Sino - Soviet Treaty?

There have been no reports regarding formal negotiations for the much talked of Sino-Soviet non-aggression pact (see G-2 Report No. 8698, item 5). However, Dr. W. W. Yen, Chinese Ambassador to Russia, has mentioned several times recently a Sino-Soviet Commercial Treaty. On March 30th, Dr. Yen stated that negotiations for such a treaty and also concerning the rendition of the Soviet portion of the Boxer Indemnity Funds would soon open between M. Bogomoloff, the Soviet Ambassador to China, and Mr. Wang Ching-wei, President of the Executive Yuan.

It is known that the Chinese Government is very anxious to conclude some type of non-aggression pact but that the Soviet Government is evading the issue. Whether or not the Russian hesitancy is due to their wish to be free to spread their influence into Mongolia and Sinkiang or whether it is their desire for freedom of action in Manchuria in case of war with Japan is not clear.

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COMMENTS ON CURRENT EVENTS

April 27 to May 11, 1934

RECEIVED G/2 W. D. JUN 5 1934

1. The National Government.
2. Situation in North China.
3. Australian Goodwill Tour.
4. Soviet Military Attache.
5. Another Military Mission.
6. Mongolian Affairs.

1. The National Government.

No authentic word has come from Nanchang where Chiang Kai-shek, Wang Ching-wei and Huang Fu have just concluded a series of very important conferences. It is understood by all that the vital issues centered around the question of Sino-Japanese relations in general and of the situation in North China in particular. After the conferences, Huang Fu went to his Mokanshan retreat near Hangchow, where he is supposed to be resting.

Meanwhile the whole country is hoping, but not really expecting, some indication of the policy which the National Government will evidence toward Japan. Again from the clouds of uncertainty and rumor which surround the issue is emerging the specter of "direct negotiations". It is thought that the Japanese may hold this club over the head of the National Government with the idea of forcing it to treat the matter of railway and postal communications between North China and Manchoukuo as a local matter to be placed in the hands of Huang Fu for settlement.

During this difficult period for Nanking it is most significant that T. V. Soong has been conspicuous by his absence on a tour for the National Economic Council (see G-2 Report No. 8816, item 7). One of the cleverest men in China, Soong is keeping clear of any connection with the Nanchang Conferences and any entangling alliances just at this time, when any action of the National Government is so certain of criticism. Then it must always be remembered that Soong has been most outspoken of the leading political lights in opposition to Japan. No doubt he feels that Huang Fu's trip to Nanchang was forced by the Japanese, and that any decisions reached by the "Big Three" will be giving ground to Japanese pressure. Should Huang, Chiang and Wang be made the target for severe censure as the result of their talks at Nanchang, Soong will be in an excellent position politically by having been just as far away from the conference table as was possible.

The aftermath of the "Hands Off China" incident (see G-2 Report No. 8816, item 1) has been confined principally to comments on the actions of other nations and the announced policy of the National Government to work through the League of Nations. The Southwest Political Council which had been quiet for some days came out with a statement on April 27th addressed to the League of Nations and the signatories of the Nine Power Pact. This called attention to the fact that the Japanese policy as announced on April 17th threatened the independence of China and the peace of the Far East and requested the League and the pact signatories to discharge their obligations under the existing instruments for international peace.

In line with the policy of the National Government to pay attention to reconstruction and national unity, Mr. Wang Ching-wei, President of the Executive Yuan, made an interesting speech on May 5th at the meeting in Nanking to commemorate the 13th anniversary of the establishment of the Revolutionary Government in Canton and Dr. Sun Yat-sen's inauguration as "Extraordinary President" of that government. Referring to the present national crisis, Mr. Wang said that with the external pressure and internal criticism no individual should be sure of his ability to overcome the existing emergency, but that if the various groups would emulate the fighting spirit of Sun Yat-sen, the present situation would not be difficult of solution.

As previously reported, it is evident that the Nanking Government is making every effort to divert the attention of the Chinese people away from external matters, particularly the question of Sino-Japanese relations. There is a concerted effort in every public speech and announcement to stress internal reconstruction and national unity. There is no doubt that the "New Life Movement" has this in view and was started just for this purpose. The movement is not spreading with any great rapidity, but some progress has been made. Of course the greatest activity is found nearest to Nanking.

2. Situation in North China.

Rumors continue to fly thick and fast in the North but apparently no one has any real idea of the actual results of the Nanchang conferences, particularly as they may effect relations with Japan. There is quite a little uneasiness evidenced in Chinese political circles. The Japanese on the other hand appear calm and confident that Huang Fu's trip to the South will be productive of better relations between the two countries. When asked by this office as to his opinion concerning the results of Huang Fu's trip, Colonel Shibayama, the Japanese Military Attache, stated that he was quite sure it would help clear up Sino-Japanese relations and that he had been advised by his representatives in the South that Huang Fu would return to Peiping about the 25th of May. Just how accurate Colonel Shibayama's estimate of the situation will prove remains to be seen.

It seems certain that Chiang Kai-shek's North China politics have been so continuously successful in recent months that any change in officials at keyposts might prove dangerous to his interests. The continuously decreasing number of troops in North China caused by absorptions, disbandments and transfer of considerable numbers of former Chang Hsueh-liang troops to Hupeh has removed much of the inflammable material which might burst into actual hostilities against Chiang's power. But the duel being waged between Huang Fu and Yu Hsueh-chung presents a major problem still to be settled. The transfer of General Yu to the chairmanship of some other province would be an easy solution but that too has its difficulties. Although his troops did not fight the Japanese he has the reputation of being unqualifiedly anti-Japanese and efficient. Any demotion or loss of face for him would be sure to be resented by patriotic northern Chinese. Therefore a suitable post must be found for him. One rumor is that Yu would be transferred to the

Chairmanship of Shantung, Han Fu-chu moving to Honan and Liu Chih from Honan to Hunan. Such a solution would of course be ideal for Chiang Kai-shek for by removing the recalcitrant Han Fu-chu from the seaboard and to replace the conservative ultra-provincial Ho Chien in Hunan with his capable and firmly loyal lieutenant Liu Chih would be of such tremendous advantage to Chiang that it would surely cause repercussions from the other political cliques.

Another individual whose interests must be considered is Chiang's most loyal supporter in North China, Shang Chen. During recent years General Shang has been a close and almost invaluable ally for Chiang. In the past he has been governor of Suiyuan, Hopei and Shansi respectively. At present he has no official position but an excellent army, the 32nd, and all the qualifications necessary for fulfilling high political posts. He is today Chiang's best "ace-in-the-hole" in North China. Recent reliable information is that Chiang has wanted to appoint him Chairman of either Kansu or Shensi but that General Shang demurred. More recent rumor has it that General Shang is being saved so as to replace Yen Hsi-shan as Governor of Shansi when a suitable opportunity presents itself. Past experience and associations make General Shang ideally qualified for that post.

3. Australian Goodwill Tour.

The Australian goodwill mission which is now visiting China is causing considerable interest. It is headed by Mr. G. H. Latham, Deputy Premier and Minister for External Affairs, and the other members include advisers, secretaries and two members of the Australian press. The party is visiting the East Indies, Malaya, China and Japan.

The mission is an indication of the recent concern being evidenced by the Australian Commonwealth in its external relations and significant in the light of the change in direction of Australian trade in the last fifteen years. Prior to the World War the countries bordering on the Pacific, excluding Canada, the United States and New Zealand, took one-twentieth of Australian export trade. Now this has increased to one-fifth and their share of Australian import trade has increased fifty percent to one-tenth.

China has been an important customer and in 1932 - 33 was the second largest purchaser of Australian wheat, but it is believed that the mission is much more concerned with Japan. There has been considerable misunderstanding between Australia and Japan of recent years and it is believed that both countries would welcome better commercial relations and possible the conclusion of some sort of trade agreement. British sources express the hope that Latham and his associates will pave the way for a clearer understanding by Japan of Australia's trade policy.

4. Soviet Military Attache.

"Commander" Edward Lepin, the new Soviet Military Attache to China, who arrived in Shanghai in April (see G-2 Report No. 8804) is making a short tour of China. He has visited Shanghai, Nanking and Peiping where he is now spending a few weeks. Lepin is bright, active, mentally very alert, and seems to be of the former sergeant major type. He speaks fair English, very good French and German and good Polish.

He came to China via the Trans-Siberian Railway and Vladivostok and spent ten days in Japan. According to him, the double tracking of the Trans-Siberian Railway has been completed as far as Karmiskaya, including double tracking of all tunnels and that work of like nature is being pushed from there towards on the Amur railway.

Lepin Frankly admits that he knows nothing about China but one gets the impression that he is likely to exert himself in search of pertinent background with energy and efficiency. He stated that he was alone at present but hoped to have one assistant later. His present plans are to spend most of his time in Shanghai and Nanking.

5. Another Military Mission.

The Ministry of Communications has been instrumental in the organization of an investigation mission which sailed from Shanghai on May 6th for the purpose of studying military and communications affairs in Europe and America. Sailing on an Italian boat they will first Italy, then Great Britain, Germany and the United States, according to tentative arrangements.

The mission is composed of twenty-four members and headed by General Yu Fei-peng, Vice-Minister of Communications, and General Hsu Ting-yao, Commander of the 17th Army. General Yu was born in Feng Hua Hsien as was Chiang Kai-shek and the two have been close friends. In 1928 when Feng Yu-hsiang and Yen Hsi-shan were opposing Chiang Kai-shek in Honan, General Yu was in charge of all communications of the National Government forces. He has been Chief of the Supply Department in operations against the Communists and also of the Nanking Military Council. His appointment as Vice-Minister of Communications is indicative of the interest and support that branch of the government is receiving from the Generalissimo and of the growing appreciation of the necessity for communications on the part of the Chinese military leaders.

General Hsu Ting-yao is also a native of Chekiang. He was a brigade commander in the 4th National Government Division and later commanded the division. Then with the organization of the 4th and 25th Divisions into the 17th Army, he was placed in command. At the present time part of the 17th Army is in Kiangsi fighting the Communists and the fact that the unit is not being used under one command may account for the selection of General Hsu as a member of the mission. It will be noted that this is one of the largest missions of this character that has ever been sent abroad and signifies the desire of the National Government officials to obtain the best advice for their communications problems.

6. Mongolian Affairs.

Since the meeting of the Mongolian Self-Government Autonomy Conference practically no information has come down from Pailingmiao. This is due no doubt partly to the fact that communication to Mongolia is poor, and partly to the fact that the Mongols are having a hard time to organize the Council and up to the present have accomplished nothing of constructive value.

An interesting sidelight on Outer Mongolian affairs was given recently by Mr. Pai Yun-ti, a Mongol member of the Central Executive

Committee, who has recently returned from a trip to Mongolia. Mr. Pai stated conditions were far from normal in that section of the country. He said that the Russian influence was very strong and that there was a Soviet regiment in Urga, supposedly as a guard for the Soviet representative. Nothing was said concerning Japanese influence in Inner Mongolia and the situation remains uncertain as to just what is going on in that area. It is planned to send an officer from this office to Pailingmiao in the near future for the purpose of securing more accurate information regarding conditions in this important territory and to ascertain what is going on at the meetings of the Mongolian Self-Government Political Affairs Committee.

S. V. Constant

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Acting Military Attache.

Distribution:
- 6 MID
- 1 Legation
- 1 Tientsin
- 1 Tokyo
- 1 Manila
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- 1 N/A
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2055-622/13

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OFFICE CHIEF OF STAFF
MIL. INTEL. DIV.
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WAR DEPARTMENT

COMMENTS ON CURRENT EVENTS.

May 12th to 25th, 1934.

1. The National Government.
2. Situation in North China.
3. Soviet-Japanese Relations.
4. Japanese Attack on Dr. Rajchmann.
5. Conditions in Inner Mongolia.

RECEIVED G/2 W. D. JUN 19 1934

1. THE NATIONAL GOVERNMENT.

Nanchang Conference.

The Nanchang tournament is over but the list of winners and prizes has not been announced. Huang Fu returned to Shanghai and was closeted for several hours with the Japanese minister who immediately thereafter departed for Japan. Both gave optimistic statements, resembling those of a politician before the tabulation of votes cast, regarding the North China diplomatic problems to the press which included statements by Huang Fu that he would most positively return to Peiping. Prior to then, however, he required a rest at Mokanshan, during which stay "nose ailment" again developed requiring that he further postpone his departure for the north. One source, who has accurate information at his disposal, states that Huang Fu is awaiting the return to Shanghai (scheduled for May 26th) of the Japanese minister from Tokyo before he will resume his post in the north.

From best available information it seems logical to assume that certain compromises were agreed upon by Huang, Chang and Wang at the Nanchang Conferences and that those relating to Sino-Japanese relations were transmitted to Tokyo via the Japanese minister. Such being the case no developments can be expected prior to the return of Mr. Ariyoshi. It is believed that this is the Japanese diplomatic effort vis-a-vis the National Government.

It appears that, true to the traditional policy of the Japanese in dealing with China, the Kwantung Army is launching a separate diplomatic attack with reference to through traffic on the railway between the Peiping - Tientsin area and Mukden. It is known that they are standing firm on this point, and that there has been a "secret" conference at Shanhaikwan regarding railway matters, which will be treated below. There is no doubt that there is connection between these two moves on the part of the Japanese but no certain information is available as to just how much each depends on the other.

Finance Conference.

The Second National Finance Conference opened at Nanking on May 21st. Dr. H. H. Kung, Minister of Finance, presided at the inaugural meeting which was attended by 120 delegates who represent the province, the Kuomintang and the National Government. It will be recalled that the first of these meetings was held in Nanking in 1928 and that then as now excessive military expenditure.

was the crux of the situation. It is quite significant, however, that such expenditures which figured so prominently in all discussions of the previous minister, T. V. Soong, find little utterance under H. H. Kung's present administration. In fact they are not even mentioned as part of the agenda of the conference, which is said to include:

(1) Reorganization of the country's land taxes.
(2) Abolition of illegal taxes and surcharges.

The fact that Dr. Kung in his opening address spoke only on those two subjects and disregarded military expenditures, does not bode well for the accomplishments of the conference and furnishes a clear illustration of the difference between his policies and the ruthlessness of T. V. Soong's approach to a solution of the Chinese financial situation. Mr. Soong was fully aware of the fact that, as 85% of the national revenue was required for service of foreign loans and for the maintenance of the various armies, the foreign borrowings previously made must be properly serviced and that the second expenditure, which averaged 45.7% of the government's total for the years 1929-1932, inclusive, must be curtailed. As the present administration is making no real attempt to tackle these problems the financial condition of the Chinese Government cannot be expected to show improvement.

Personalities.

In Chinese politics personalities exert a much greater effect than that of other countries. Policies are enunciated but it is always considered permissible to make changes when conflicts of principle with reality occur. Although the Kuomintang has held on to Dr. Sun Yat-sen's principles for obvious reasons of propaganda and have profited thereby, since the Mukden incident there has been a most marked decline in the influence of both.

Most observers will agree that the personality of Chiang Kai-shek is the most potent power in China today. He has in fact superseded the Supreme War Council and all executive power in the Central Government. For the past few years he has remained in the vicinity of Nanking and sphinx-like has received politicians from throughout China who approach him with the fear, dread and respect due a Czar. This development and his advance toward dictatorial powers in China have reached such a degree that in a recent forum meeting of Chinese and foreign political thinkers in Peking, the topic for discussion was the suitability of a dictatorship for China. The discussion both in fact and implication openly centered upon Chiang's bid for assumption of that role.

The second most powerful figure in Chinese politics is the Americanized and Prussian - characterized, T.V. Soong. Mr. Soong assisted by his three influential sisters (Mesdames Chiang Kai-shek, H. H. Kung and Sun Yat-sen) has tremendous energy, good practical sense and plays politics in a quasi-foreign manner. His recent rupture with Chiang Kai-shek was very disappointing to those who wish well for a stabilized China. Reports received some ten days ago stated that secret meetings had been held by Soong and Chiang with some progress made toward a reconciliation. At this time it was said the pro-Japanese clique headed by Yang Yung-tai and Chang Chun (see G-2 Report No. 8666), Soong's bitter enemies, was losing favor with Chiang. This, so it was said, was signified by Chiang's unwillingness to agree to Huang Fu's proposals in relation to Sino-Japanese negotiations. However, the same source subsequently said that more recent information had been received that Chiang had suddenly reversed his policies and was now paying heed to his pro-Japanese advisers. The ability of Soong and Chiang to get together again will do much to strengthen the Central Government and will prove of tremendous help to Chiang in his endeavor to establish a dictatorship.

The strength of the above two men has over-powered the influence of all their associates. No better example can be cited than that of Wang Ching-wei. Wang had all the prestige and influence of one of the original revolutionists. His attempted assassination of the Prince Regent in 1910 and resultant imprisonment until released in November 1911 by the success of the Revolution and his close association with Sun Yat-sen gave him a halo and his experience qualified him for active leadership. Nevertheless, after many years of being an "out", he is today an "in" but has the national reputation of being but a mouthpiece for Chiang Kai-shek.

2. SITUATION IN NORTH CHINA.

Shanhaikwan Conference.

The two conferences held at Shanhaikwan on May 14th and 15th by Japanese and Chinese officials have attracted a great deal of attention. Considerable secrecy was maintained with the result that the wild speculation has been caused regarding its purposes and accomplishments. The participants in the conference were:-

Chinese.

Yin Tung - Managing Director, Peiping-Mukden Railway,
Tao Shang-min - Administrative Inspector, Luantung District.
Yin Ju-keng - Administrative Inspector, Chihsien-Miyun District.

Japanese.

Colonel Shibayama - Military Attache, Peiping.
Colonel Matsui - Representing the Kwantung Army garrison at Chengteh.
Colonel Giga - " " Shanhaikwan.
Mr. Ohta - Representing the S.M.R.

In spite of the vacuous statements issued by the various members, the personnel assembled makes it obvious that the question of resumption of through traffic on the Peiping - Mukden line was a major topic of discussion. This assumption is strengthened by the fact that Mr. Yin Tung was accompanied to Shanhaikwan by a number of his railway assistants, some of whom admitted discussing "technical matters" regarding resumption of traffic and also by the fact that Yin Tung left for Nanking and Shanghai to see national government officials and Huang Fu immediately after the conclusion of the Shanhaikwan conference.

It is commonly believed in North China that the railway negotiations have reached the point where only details connected with "saving China's face" are being discussed. In order to achieve this, plans have been proposed to establish an "international tourist agency" with resumption of through traffic scheduled for June 1st. Under this scheme this agency will then arrange for through traffic. The protection of the railway from Shanhaikwan to Mukden is stated to be guaranteed by the Japanese and not Manchoukuo.

Just what will eventuate, of course no one knows. But as twenty additional S.M.R. officials and extra rolling-stock was reported to have arrived at Shanhaikwan on May 21st, indications point to the assumption that Japan is to have her pound of flesh. Important Chinese statesmen of position are not concerned with the amount of blood that will go with the flesh, just so long as the (1) no other solution seems possible, (2) the requirements of Chinese diplomacy (face) are maintained or (3) the flesh is not their own.

It is all well and good for outsiders to postulate, but who can compromise with an opponent who refuses to compromise and has the power to enforce his demands. Furthermore, who knows just how long passive resistance and procrastination can be used against the Japanese. China today is especially imbued with one of its many proverbs - "After being bitten by a snake, man jumps the next ten times he sees a piece of rope." China is indeed faced with a difficult situation. Not strong enough to actively oppose the Japanese and unable to secure help from outside sources, she must either go down fighting against sure defeat or strive to hold off Japan in the hope that either China herself will grow strong or that some outside cause as a Russo-Japanese war will cause Japan to cease her aggression.

The Chihsien Incident.

On May 10th a detachment of some 200 Japanese troops from the Jehol garrison marched through the wall and occupied the town of Chihsien and disarmed the local police. According to the Japanese they did this because the police of that town had fired upon a small and unarmed group of Japanese soldiers making a tour of inspection in that area. This incident occurring in the Demilitarized Zone, about midway between Peiping and Hsifengkow, is another incident which the Japanese point out at great length as indicative of the insincerity and passive resistance to normal friendly resistance being employed by the Chinese. On the other hand, the Chinese with much more restraint state it is just another use of force by the Japanese on a "trumped-up" case for the purpose of further coercion.

A member of this office received from a very fairminded American missionary, who was present at Chihsien during most of the affair, the following version of it:

On the 9th of May a Japanese plane dropped leaflets upon the town of Chihsien. One of these was obtained by this office and translated as follows:-

"A Warning to the General Public in the
Demilitarized Zone.

In consideration of the significance and spirit of the Armistice Agreement, it goes without saying that the terms contained therein cannot be violated by both parties concerned. Ever since the conclusion of the Peace Pact, everything has been going on quietly in the Demilitarized Zone and the inhabitants have been enjoying tranquillity, thanks to the right attitude adopted by the Japanese Army. Unfortunately, on May 5th a Japanese detachment, while proceeding on transfer to Malanyu from Hinglung, was unlawfully insulted and fired upon by the Chinese constabulary stationed at Kichow (Chihsien). This was an act of violation of the Truce Agreement. In fact, it was an act of contempt for our Army and we consider that nothing was more atrocious than this. It also proved that the Chinese had no sincerity to abide by the Armistice Agreement. As a consequence, the Japanese Army cannot fold its arms and be an onlooker. The Japanese Army hereby demands an apology from the Magistrate of Kichow (Chihsien) and other responsible persons and appropriate punishments to be meted out to the offenders of this incident. Should there be any procrastination in dealing with this matter under certain pretexts, the Japanese Army will certainly use its own practical way to have the offenders punished without tolerance. In case of any eventual casualties which may be inflicted upon the local people and also other sacrifices as a result, the Japanese Army will not hold itself responsible for such an occurence. This is our warning.

Japanese Army Stationed at Jehol.

May 9th, 9th Year of the Reign of Hirohito."

This was the first indication to the villagers of Chihsien that they had done anything to insult the Japanese. It is quite likely that certain Chinese, not realizing that many Japanese can understand the Chinese language, had passed slighting remarks about them within the hearing of the Japanese. Or, as in all country districts it is possible that rifle-shots had been fired during the night by police at people suspected of prowling. However, no conscious insult or action had been made against the Japanese. As the town magistrate was unable to find his senior officer and obtain necessary instructions for replying to the ultimatum the Japanese troops entered Chihsien on May 10th. They did so as a conquering army marching in full-war equipment into a town for display. In the town throughout their stay, about one week, their conduct was most exemplary and there was not one single case of looting or rowdyism. The first day of their occupation a speech was made from the village theatre. As this adjoined the missionary property but was not a part thereof, the Japanese commanding officer asked for the resident missionaries permission for its use. The speech elaborated on three main topics:

(1) the Japanese would not harm the villagers;
(2) China should be an empire like its neighbors Manchoukuo and Japan;
(3) the yellow races should combine against the whites.

At the conclusion of the speech cigarettes and candy were given to the audience.

Following protracted negotiations the Japanese troops evacuated Chihsien on May 18th. It is the opinion of this office that this incident was deliberately made by the Kwantung Army as a reminder to the Chinese of their presence near Hopei and of the ease with which North China could be invaded and for the direct purpose of influencing impending negotiations.

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Gubernatorial Politics.

No startling political developments have taken place recently amongst the governors of the North China provinces but there are many evidence of activity. Recent rumors that the Shantung governor Han Fu-chu had finally decided to reconcile his differences with Chiang Kai-shek and "play-ball" received some weight when it was officially announced that the Central Government would resume control of the Tsinan arsenal on May 15th, Han Fu-chu's troops would adopt the military tactics of Nanking troops, and that Han would visit Nanchang during the end of this month.

In Shansi, however, rumors indicate that the cleavage between Yen Hsi-shan, the actual provincial dictator, and Chiang Kai-shek is widening. One indication of this was said to have been illustrated during the recent visit of Chiang's emissary, Huang Shao-hsiung. Yen pleading sickness refused to see him but the ailment was not so serious as to preclude his receiving the Japanese Military Attache, Colonel Shibayama, who was in Shansi province at the same time. The governor, Hsu Yung-chang, who is now really impotent due to Yen's overlorship, has left the provincial capital for a mountain resort in search of relief from his liver complaint. As a member of this office is now in Shansi, accurate information can be expected concerning the conditions of that province in the next pouch.

No credible reports have been received to discount our previous information that the conciliation between Chang Hsueh-liang and Chiang Kai-shek is anything but sincere. Since the former's return from Europe there has been a steady flow of the "outs" from North China to Hankow to see him about reemployment or to intrigue. So far as this office has been able to learn, practically all have returned a chastened lot, hearing for themselves from the Young Marshal's mouth what others have told them. Chang Hsueh-liang's trip to Europe has given him a reformed idea of patriotism, has cured him of the narcotic drug habit and has decided him to work for China's interest under the tutelage of Chiang Kai-shek. All of China is wondering if he will have the necessary moral courage and stamina to maintain such a procedure in face of sure temptations and discouragements.

3. SOVIET-JAPANESE RELATIONS.

Except for the protest filed by Manchoukuo officials relative to the firing by Soviet shore batteries upon the Amur - Sungari river steamer (see G-2 Report No. 8837) there have been no recent developments in the relations of Soviet Russia and Japan.

The Soviet delegates have shown no signs of retracting from their previous stand on the N.M.R. sale discussions. Following the second interim meeting in Tokyo on March 14th, at which no progress was made, the Soviet delegates refused to set a date for the next meeting, giving as an excuse that their preparations were incomplete.

Mr. Yureneff, Soviet Ambassador to Tokyo, has attempted to reach a settlement in the fishery yen-rouble exchange rate controversy. On this point, however, the Japanese seem to wish to delay settlement, for, Mr. Hirota, the Japanese Minister of Foreign Affairs, has attempted to avoid the issue by saying the matter should properly be referred to the Japanese fishing interests.

Of course the Japanese press has continued its policy of disseminating anti-Soviet propaganda. Stories of the impoverished condition of the soldiers in the Soviet army and of a revolt of the 53rd Cavalry Regiment at Dauria on May 10th against the OGPU have been published. Another article appeared in the Manchuria Daily News on May 18th describing a secret China - Soviet treaty regarding Mongolian activities which has been concluded. The establishment of a Soviet consulate at Kalgan on May 7th is cited as one evidence of this agreement. The despatch lists three of the salient provisions as being:

> "The Soviet Government acquiries the right to utilise five motor-car roads in Inner Mongolia, Chahar and Suiyuan.
>
> The Soviet Government also acquires the right to erect four wireless stations.
>
> The Soviet Government, in order to maintain a network of communications in Inner Mongolia, acquires the right to operate eighty cars and trucks of various capacities and four armoured cars."

In the light of recent investigations by this office in Inner Mongolia, such a secret treaty seems unlikely.

4. JAPANESE ATTACK ON DR. RAJCHMANN.

The issuance of Dr. Rajchmann's report concerning technical cooperation between the League of Nations and China has occasioned much comment in the Far East during the past two weeks. Basically all of the protests of Japan can be summed up in their often repeated assertion, that they alone understand the ailments of China and are the only nation qualified to prescribe a cure. Specifically they charge that Dr. Rajchmann is well known for being a Japanophobe, has engaged in political activities rather than technical and by his advice has been personally responsible for T. V. Soong's unqualified anti-Japanese policy.

Specifically, some of the statements which appeared in the Japanese inspired press are:-

> "that Japan is in a far better and more important position to judge the situation in the Far East than anyone else not excepting the League of Nations."
>
> "Japan will pursue her definite policy, aiming at the maintenance of peace and order in China."
>
> "The Japanese Government may serve a warning to China or to the League of Nations, emphasising the necessity of suspending consideration of international financial assistance to China, and if necessary to take measures it deems adequate to cope with the situation likely to arise subsequent to international assistance to Chinese financial affairs."
>
> "That the Japanese Government will stand by its announced policy that any international financial assistance to China, without previous readjustment of China's international

indebtedness, will eventually merely increase China's burden."

"If the Rajchmann plan is put into force the financial assistance of an economic nature will eventually come to bear a political colour."

"Although Nippon agrees to technical and financial assistance to China, inasmuch as Nippon is the stabilizing power for the maintenance of peace in the Orient, she is opposed to any assistance plan that disregards the fact that she is most interested in this."

"However, Soong changed his mind later as a result of meetings with Dr. Rajchmann and came to support the Doctor's recommendations."

"Meanwhile, Soong and Dr. Rajchmann cooperated with each other to carry out their anti-Japanese program."

The vehemence of the Japanese attack upon Dr. Rajchmann has done much to enhance his prestige and that of associates in China. Due to a difference in customs and language and the lack of understanding of modern life according to the western conception by many Chinese officials, the work of foreign political, military or economic advisers in China has always been carried out under hectic conditions. There has been much opposition to these advisers by groups mostly imbued with the idea that foreigners cannot help China. Now, however, since Japan's attitude has been made so unmistakably clear on the matter of foreign advisers, this alone will be sufficient to convince many Chinese that their retention is desirable. In connection with query contained in Evaluation Report of April 16th regarding Dr. Rajchmann's departure, this office does not believe Japan forced his leaving China, although they are now making active efforts to prevent his return.

5. CONDITIONS IN INNER MONGOLIA.

The Mongolian Self-Government Political Affairs Committee or better known as the "Meng Cheng Huai" was inaugurated the last of April at Pailingmiao as previously reported (see G-2 Report No. 8816, item 6). Yun Wang was installed as Chairman with So Wang and Sha Wang as Vice-Chairmen. Te Wang, the leader of the Young Mongol group, is the Secretary of the new organ and bids fair to be one of its most powerful figures. An intelligent, educated, aggressive and ambitious man, thirty-three years of age, he is doing all he can to become the leader of the autonomy movement.

Te Wang apparently has the confidence of the other Princes for they now have left Pailingmiao and returned to their homes, leaving him to carry out the routine business of organizing the various organs of the new government. In addition to these duties, he is supervising the training of drafts of soldiers which are arriving at Pailingmiao daily from the various banners. For this he is using the fifty students of his own personal officers' school which he has chosen from the different leagues and which he has had under instruction for about a year.

All these preparations the Mongol leaders appear to favor unanimously and from conversations with Te Wang, numerous officials of the Autonomy Council and other Mongols, it is believed that the representative leaders of the Leagues and Banners are convinced that their hope for the future is in a united and autonomous Mongolia.

Disliking the Chinese for the way in which they have treated them, the Mongols believe that there is vastly more chance of achieving their aims with China than by joining with Manchoukuo. According to Te Wang and Mongols from the eastern banners, the Japanese sent envoys to them prior to the formation of Manchoukuo for the purpose of enlisting the Mongols of Chahar and Suiyuan under the new Manchu Empire. The envoys were informed that the former loyalty of the Mongols to the Manchu house was a thing of the past and ceased with the fall of the Chinese Empire. Despite this the Japanese have been very active and their agents are actually in Te Wang's palace at Naranboluk (Je Ch'uan). It is believed that Te Wang is using them as a threat to the Chinese in case they fail to fulfill the agreements of the Autonomy Regulations (see G-2 Report No. 8800). Te Wang told the undersigned that it was the consensus of opinion of the Mongol leaders that they could attain their aims of autonomy by negotiating with China but that should they make any kind of agreement with Japan it would not be long before Inner Mongolia was a vassal state under Japanese control. There is no doubt that the Mongols realize their strategic position and will make use of it in bargaining with the Chinese.

Already the Chinese have agreed to give the Autonomy Council some fifty thousand dollars silver a month for administrative expenses. In addition to that they have signified their willingness to recognize the old Mongol land boundaries and to give each banner a percentage of the taxes from this land now under cultivation by the Chinese. Under these terms land now occupied by Chinese colonists will not be given back to the banners, but no new land will be occupied. Here the National Government has played a clever game as they have agreed to give to the Mongols a percentage of the tax money which went not to them but to the provincial treasuries of Chahar and Suiyuan.

While the Japanese are actively trying to influence the various princes to join Manchoukuo or set up independent states, they are opposed to the formation of the new Mongol government which of course will be detrimental to their interests. A united Mongolia is far from Japanese desires. It is believed that Japan is making but little progress at this time in her efforts to establish buffer states under Japanese control between Outer Mongolia and Jehol.

As far as Russia is concerned, it is believed that at this time her influence in Inner Mongolia is negligible. Investigation indicates that every effort is being made by the authorities of Outer Mongolia to keep their people from contact with other Mongols. A sort of "No Man's Land" has been established between Outer and Inner Mongolia into which Outer Mongolians are not allowed to go and their troops patrol this area to enforce the isolation policy. Only one commercial firm is allowed to send camel trains up the Urga road to the Outer Mongolian border. This is the Wostweg Co., ostensibly a German-Chinese concern but run with Soviet money. Even camel trains of this firm are required to unload their camels at the border and return them to Kalgan, new camel trains of Outer Mongolian persuasion picking up the loads at the border and repacking for Urga.

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According to reliable sources, it is stated that the camel pullers from Outer Mongolia are not allowed even to talk to their brethren of Inner Mongolia. The Mongols state that they believe these precautions are taken for fear the natives of Outer Mongolia, dissatisfied with Soviet mistreatment, will want to join the Inner Mongolian banners in the autonomy movement.

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WAR DEPARTMENT

COMMENTS ON CURRENT EVENTS

May 26 to June 8, 1934

1. The National Government.
2. Chinese Military Missions.
3. The Peiping-Suiyuan Railway.
4. Air Attaches Active.
5. "The Good Earth".
6. British Naval Attache.
7. Russo-Japanese Relations.

RECEIVED G/2 W.D. JUL 3 1934

1. THE NATIONAL GOVERNMENT.

Through Traffic to Mukden?

Rumors are flying thick and fast regarding the resumption of through traffic between the Peiping-Tientsin area and Mukden. Quite detailed reports have appeared as to the traffic agreements only to be denied in the same breath. It looked for a time as though some official announcement were to be made to the effect that tentative plans had been formulated for through traffic under an "international tourist agency" which was to be composed of Chinese and Japanese officials.

It is known that Mr. Yin Tung, the Managing Director of the Peiping-Liaoning Railway, has been having conferences with Huang Fu. It is also reported from reasonably reliable sources that Mr. Yin has wired the Railway Administration in Tientsin to make arrangement for a number of officials of their Traffic, Engineering and Police Departments to accompany him to Shanhaikwan in the near future. The Chinese press carried reports that the final plan had been submitted to General Huang Fu for his approval and that then the matter would be placed before the Central Political Council for final sanction. The report further stated that as soon as the scheme had been approved by the Council that Huang would return to North China accompanied by Yin Tung.

The truth of the matter cannot be ascertained at present but the draft of the plan as given by the Chinese press is quoted as of possible later bearing upon the case. This is as follows:-

"(1) The through trains will use S.M.R. locomotives.

(2) Both ends, Peiping and Mukden, will sell tickets up to Shanhaikwan.

(3) An International Tourist Bureau will be organized to look after passenger traffic, goods traffic, etc.

(4) The number of trains running will be decided by a technical committee.

(5) Rolling-stock is to be interchangeable.

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(6) Separate accounts are to be kept for the through traffic and the revenue from tickets etc. to be adjusted.

(7) No flags whatever are to be displayed and no notices of any kind to be posted.

(8) The Peiping-Shanhaikwan section and the Shanhaikwan-Mukden section will keep their own railway guards.

(9) The staff of the International Tourist Bureau will comprise Chinese and Japanese railway experts. The headquarters will be at Shanhaikwan with branches at Peiping, Tientsin and Mukden."

On June 1st, Mr. Wang Ching-wei, President of the Executive Yuan, admitted that Japan had made certain proposals concerning restoration of traffic and postal relations with Manchuria but emphatically denied that the National Government had made any decision in the matter. He said in part:

> "Concerning the current report that these two questions will be settled by the local authorities with the Japanese, I can say this much: No arrangement for through traffic and postal relations can be effective without the approval of the Central Authorities. The question has not passed beyond the stage of discussion."

Mr. Wang further said that there was no truth in the report that the Government was about to change its policy towards Japan. The negotiations for the restoration of through railway and postal relations were being carried on the principle that there would be no impairment of Chinese sovereign rights. No question of a change of policy would be involved in the event of through railway traffic and postal relations being restored with the Northeast.

Despite these assurances this office believes that a decision as to traffic has been reached but that due to disagreement in high Chinese Government circles as to the details of the plan, public announcement has been delayed. It is not believed that the matter of the resumption of postal relations has been agreed upon.

Results of Finance Conference.

As the result of the efforts of Dr. H. H. Kung, the Minister of Finance, a measure was passed by the second National Financial Conference on May 25th calling for the abolition of the various miscellaneous illegal taxes in the provinces within a period of six months, beginning July 1st. The question was taken up in the Executive Yuan with the result that on June 5th they decided to instruct the various provincial authorities to refrain from levying new surtaxes on the land tax and also imposing other illegal taxes.

The details for carrying out this plan and the means of enforcement will be watched with interest by Chinese and foreigners alike. The power vested in local officials to levy taxes as they saw fit has been a great burden on the Chinese people. If the National Government succeeds even partially in curbing provincial authorities in this regard it will not only benefit the Chinese but Nanking will have taken one more step in making its authority more evident and stronger in a very concrete way.

2. CHINESE MILITARY MISSIONS.

The Chinese Military Mission headed by General Yang Chieh (see G-2 Report No. 8789, item 7) which has been visiting Germany, Poland, Italy, Turkey and Soviet Russia, has arrived in London. Chinese officials here state that the further itinerary of the mission is uncertain as is the date of their return to China. At this same time another Chinese mission is in London, headed by General Huang Kwang-jui, head of the Aviation Department of the Kwangtung Provincial Government (see G-2 Report No. 8814, page 5).

According to a Nanking telegram dated June 5th, General P. T. Mao (Mow), Director of the Hangchow Aviation School, has been appointed as a special commissioner of the National Government to study aviation development in Europe and the United States. This office has known that his replacement was imminent and it will make things no easier for the American instructors at Hangchow. General Mao comes from the same town as does Chiang Kai-shek and his position was believed secure. He was one of the best men connected with the flying school and functioned under the T. V. Soong regime. He is considered very pro-American and made a name for himself in the recent operations incident to the suppression of the Fukien rebellion.

3. THE PEIPING - SUIYUAN RAILWAY.

The Japanese interest and activity with reference to the Peiping - Suiyuan Railway (see G-2 Report No. 8816, item 5) has seemingly borne fruit. On May 27th the Ministry of Railways in Nanking issued a statement which confirmed rumors of the conclusion of an agreement with the reorganized Oriental Development Company for the re-adjustment of an old Japanese loan of $5,200,000 which was made to the Ping-Sui line in 1919. The Managing Director of the railway stated to representatives of the press on May 28th that the message from the Ministry of Railways had no connection with a new loan but was for re-adjustment along the same lines and according to the general policy for the re-adjustment of all loans owing by the Chinese Railways to foreign creditors, British and American as well as Japanese. He denied that this transaction was in any way connected with the famous Nishihari Loans and called attention to the recent settlements made with British creditors of the Tientsin-Pukow Railway and of the Peiping-Hankow Railway for the re-adjustment of the loans owing by these two lines and also with a certain American creditor group.

It will be remembered that the Nishihara Loans were advanced by the Japanese to the old Peking Government in 1917 and 1918, during the time that its policies were dominated by the Anfu Clique. While the statement of the Managing Director given above may be technically correct when he states that the loan was not one of the original Nishihara group it was certainly the same sort of loan and used or misused in the same manner by that well known political group which took so much from the treasury of China some sixteen years ago.

Japanese official sources state that they were surprised that the Ministry of Railways had announced the re-adjustment of the Peiping-Suiyuan loan as the National Government had requested it be kept secret. This statement is not believed to be true as in a case like this, Nanking would have everything to lose and nothing to gain by any such secret agreement. This same Japanese source also stated the terms of the new arrangement and this part of his statement is believed to be accurate. It appears that the original loan of $5,200,000 is to be repayable in installments with interest at 6 per cent. The accrued interest, which now amounts to more than the principal, has been reduced to $5,200,000 also and will be payable in installments without interest.

4. AIR ATTACHES ACTIVE.

Perhaps encouraged by the successful efforts of the Italians who have succeeded in divorcing the bombing instruction from the Hangchow Aviation School and establishing a bombing school at Nanchang, there has been considerable activity among the air attaches of other countries.

Commander Fieschi, the French Attache for Air, has just made a trip to Nanking accompanied by Lieutenant-Colonel Bonavita, the Military Attache. From confidential sources it is learned that they went to make overtures to the National Government for the establishment of an aviation school at Nanking, under French supervision.

It is not known what success they had in this regard but it is known that the French have just sold the National Government five Breguet 27 - S, all metal monoplanes. These are powered with single 650 horse-power Hispano-Suiza motors. It is very likely that the trip of the French Military and Air Attaches to Nanking was connected with the sale of these planes, which is the most important sale made by the French in some years.

The British are watching the activities of the French very carefully and the British Military Attache, Lieutenant Colonel V. R. Burkhardt, has just decided to send one of his language students, Flight Lieutenant Bartholomew to Nanking. Group Captain R. P. Willock, British Air Attache (see G-2 Report No. 8754, item 7) is on a short trip to North China. While on his first tour of North China early in the year Captain Willock often spoke laughingly of "carrying a bag" (going commercial) in Shanghai, his remarks this time are quite guarded. Several conversational attempts to discover how he accounts for his time always ended in a dissertation on Shanghai dance halls, which it is known that he does not frequent.

5. "THE GOOD EARTH".

Officials of the M-G-M Company are finding that filming Mrs. Buck's book, "The Good Earth", is not as easy as they had anticipated. Given no cooperation by the National Government at the start and being the cause for several new sets of regulations governing the taking and production of motion pictures, the M-G-M is still trying to hurry the East in typical Hollywood technique.

General Tu Ting-hsiu, the head of the Department of Physical Education and Extra-Curricula Activities at the Central Military Academy in Nanking, has been detailed as the governmental liaison agent with the M-G-M representatives. Tu is a returned American student and considers himself quite an authority on almost every subject, with the result that he and Mr. Messenger have had some stormy sessions. Tu has threatened to resign several times but with the prospect of six months in Hollywood in view it is believed he will continue to advise. His task is made no easier by several other Chinese experts, each of whom is trying to be the most important Chinese contact with M-G-M.

One of the difficulties in filming the picture has been the basic principle announced that no view will show anything detrimental to the Chinese. In taking a famine migration scene for example, the Government objected to women with bound feet appearing in the picture. After eliminating all these the large footed women were so few as to make the migration composed almost entirely of men. No solution has yet been found for this. Then in a scene where the principal character of the book is working in the fields, the Government wishes a tractor to show in the background - a sign that there is agricultural progress in China.

While the difficulties of the fast moving and temperamental methods of Hollywood directors and camera men faced with the slow moving East can be realized, the fault is not all theirs. It is unfortunate that both sides cannot concentrate on turning out a picture that will resemble the original text. From present indications it would appear that Mrs. Buck will have a hard time to recognize her own story if it ever appears on the screen.

6. BRITISH NAVAL ATTACHE.

Captain J. G. P. Vivian, R. N., the British Naval Attache to China and Japan, has been visiting Nanking, Peiping and Shanghai. Accredited to both countries, Captain Vivian spends the majority of his time in Japan, only making occasional trips to China. He left Nanking for Tokyo on May 30th, stating that his return was necessary on receipt of the news of the death of Admiral Togo, the famous Japanese naval hero of the Russo-Japanese War.

7. RUSSO-JAPANESE RELATIONS.

A serious trend has developed in Russo-Japanese relations starting with activities of Manchoukuo vessels which the Russians claimed were cruising in Soviet waters for the purpose of inspecting Soviet fortifications. The Russian story is that after repeated warnings vessels flying the Manchoukuo flag continued to cruise near Soviet territory and shots were fired to make the warnings more severe.

Manchoukuo then demanded an apology from the Soviet Government in plain language. Since Moscow does not recognize Manchoukuo the Soviet authorities have made no direct answer but have issued a warning direct to Japan. According to best available information the document from the Foreign Commissar warns Japan that surveillance of Soviet territory along the Amur River by vessels flying the Manchoukuo flag must cease at once.

The Soviet Government makes no attempt to deny that shots were fired but contends that Soviet troops were within their rights under international law when they fired on vessels flying Manchoukuo colors which failed to heed the warnings or to submit to examination by Soviet officials.

The Soviet Government has been consistent in its attitude in dealing directly with Japan when questions concerning Manchoukuo are concerned and it will be interesting to observe how Japan treats this angle of the situation. Perhaps she will again offer her services in settling this matter as she has been doing in the case of the Chinese Eastern Railway.

According to Japanese sources there appears to be some hope that effective discussions will be reopened on the sale of this line. On May 7th, M. Konstantin Yureneff called upon Foreign Minister Hirota and it is stated that arrangements were made for a second conferences which took place on May 9th at the residence of Mr. Hirota.

Although the contents of the latest instructions given Mr. Yureneff, which were supposed to have prompted these meetings, have been kept secret, the Japanese claim that the Soviet counter-proposals are much nearer the Manchoukuo offers than previously.

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June 9 to 22, 1934

1. The National Government.
2. Sino-Japanese Relations.
3. Communist Scares.
4. Conditions in Shansi.
5. North China Politics.
6. The Kuramoto Case.
7. Prince Chichibu Visits Manchoukuo.
8. Sino-Swedish Expedition.

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1. The National Government.

General Chiang Kai-shek arrived in Nanking on June 15th from Nanchang just in time to conduct the memorial service at the Central Military Academy for its graduates who had lost their lives in service for the Kuomintang and China during the last ten years.

June 16th and 17th were given to celebrations at the Military Academy in commemoration of its tenth anniversary and in these the Generalissimo was the central figure. He is well aware of the value of the loyalty of the officer corps he is striving to create and never loses an opportunity to build up its morale. It is interesting to note that commanders in North China are now anxious to have graduates of the Central Military Academy, a condition which could not have existed ten years ago.

Surely not a coincidence was the arrival also on June 15th of T. V. Soong. This is Mr. Soong's first visit to Nanking since he came back from his inspection tour of the northwest in behalf of the National Economic Council. It is understood that a meeting of the standing committee of the N.E.C. was scheduled for the 16th.

Soong is still a factor to be reckoned with and plays Chinese politics with an American touch. Conspicuous by his absence from Nanking during the Chiang - Wang - Huang conferences (see G-2 Report No. 8838, item 1) he now returns to Nanking on the same day as Chiang. In many ways Soong is more powerful than when his activities were limited by his official position as Minister of Finance, and he may be expected to play a still more important role in the future.

A hopeful sign from Canton is the report that General Chiang Po-cheng has succeeded in making an agreement with the Canton military leaders with reference to cooperation with Nanking in the Anti-Communist campaign. No reliable confirmation of this has been received.

2. Sino-Japanese Relations.

Much speculation was heard as to the reasons for the trip to Japan of Mr. Ariyoshi, the Japanese Minister to China (see G-2 Report No. 8838, item 1). He returned to Shanghai the end of May and made a trip to Nanking the first week in June. While there he called upon various leaders of the Government and discussed various angles of Sino-Japanese relations.

During an interview with Mr. Wang Ching-wei, the Japanese Minister expressed the desire of his country for cooperation with China in maintaining the peace of the Far East. What else he said was not given publicity, but on June 9th upon his return to Shanghai, Mr. Ariyoshi stated to representatives of the Japanese press that he had reached a friendly understanding with the Chinese Government and that there was hope for an early settlement of some of the important issues now under discussion between the two nations. His whole attitude appeared optimistic but so far this has not been reflected from Chinese official circles.

Discussions between Ariyoshi and Chinese officials were held and arrangements discussed but announcements of such have not been officially forthcoming. The question of through traffic to Mukden is yet in the balance though late information indicates that this service will start as of July 1st. The passes of the Great Wall are still in actual Japanese hands though face saving devices have been instituted at Kupehkow and Shanhaikwan. Colonel Shibayama, the Japanese Military Attache at Peiping, admits the reality of the occupation of the passes and states that the Great Wall is now the boundary line of Manchoukuo! What Tokyo would say to this is not known but Shibayama is believed to be voicing the opinion of the Kwantung Army when he verbally appropriates the age old boundary line of China proper, built to keep out invaders and calls it the boundary of Manchoukuo to keep out the Chinese. The ghost of Ch'in Shih Huang, that energetic emperor who is credited with completing this wonder of the world, must certainly be having a difficult time of it these days!

3. Communist Scares.

Following the report that a bomb was found in the residence of General Huang Fu in Shanghai, the police have been on the alert for a supposed plot to assassinate various political leaders. In Nanking also there has been a terrorist flurry resulting in the arrest of Po Yuan-fu, stated to be the personal representative of the notorious "red" leader Mao Tze-tung.

With Po were arrested Yao Nai-hsun, Director of the Publicity Department of the Communist Party, and several members of the so-called dare-to-die assassination corps. According to official information published in Nanking the secret headquarters of the Communist elements in Nanking was raided on May 31st resulting in the arrest of the persons named above and also the seizure of a considerable amount of communist documents and weapons.

The Nanking police state that the persons arrested confessed that they had been sent to Nanking to do secret as well as terrorist work for the Communists and that agents had also been sent to Shanghai, Hankow and Peiping for the same purpose. This may account for the bomb being left at the house of General Huang Fu.

It is quite possible that the Communist party is taking advantage of the present situation vis-a-vis Japan to make trouble, hoping for the sympathy of anti-Japanese sentiment. On the other hand it should not be forgotten that there are many people in China who are much opposed to General Huang Fu and the policy which he has been carrying out for the Government in North China. There appears to be a feeling that further concessions to Japan will be made on the question of through traffic to Mukden. In the past opposition to the Government has been known to take the form of bombs and threats which have been conveniently labeled the work of Communists. Perhaps the latest Communist scare is but another of these periodic anti-Government demonstrations.

4. Conditions in Shansi.

Much excitement has been caused by the reported death of General Yen Hsi-shan of Shansi. The rumor at once started a run on the Taiyuanfu offices of the Shansi Provincial Bank and the Colonization Development Bank but so far both have been able to meet all demands.

Apparently Yen has been indisposed recently and it is believed the rumor of his death was spread in financial circles for the purpose of discounting the Shansi notes. If Yen's sickness was serious it must have taken a sudden turn as when a representative of this office passed through Shansi the last week in May the old General was on his way to northern Shansi and his favorite concubine had arrived in Tatungfu May 20th.

The province of Shansi continues prosperous and road building is receiving great attention. The new motor road from Tatung to Taiyuanfu is undoubtedly one of the best in China. Shansi bus companies and the officials have combined into an organization which has accomplished much. Only motors are allowed on this road which is practically all crushed rock construction. Wooden bridges are being replaced by concrete and the grading and construction over the difficult Yen Men Kuan pass in the north would be a credit to engineers of any country.

Shansi merchants are famed for their trading ability and the Shansi banker has a reputation unequaled in all of China. It is not surprising then that such official-commercial combinations are doing well, such as the bus line mentioned above. The Shansi authorities have a penchant for this sort of venture and are conducting the cigaret, opium and other businesses along the same lines.

For example they only permit the British-American Tobacco Company to sell a limited number of cases a month. These must not be sold for less than cigarets put out by government controlled firms. Most of the opium used in Shansi comes in from Suiyuan Province. The Shansi authorities allow it to be sold only through firms which they indicate - enabling them to keep a fair check on revenues. Each package has a government stamp on it and the quantity which may be purchased by any one person through an authorized firm is unlimited.

Despite reports from missionary sources, a personal investigation from one end of the province to the other indicates that the people of Shansi are very well off compared with the natives of surrounding provinces. It is true that they are taxed heavily for provincial improvements but these same improvements are opening new sources of income to the people. They are getting something for their money and are better taken care of than are the people of the average province in China.

5. North China Politics.

The political pot in North China is beginning to simmer once more as Huang Fu continues to remain in the South. The General undoubtedly is aware of this fact for on June 13th he gave out a statement deploring the development of a defeatest spirit among many classes of people in the North. He stated that despite the Tangku Armistice many educational institutions and banks were making plans to move southwards and that North China was apparently left out of consideration for Government development plans. This he contended was producing demoralizing effect upon the population as it looked like an abandonment of North China. General Huang again announced that in his negotiations with the Japanese he was always guided by the principle of non-recognition of Manchoukuo and avoidance of political issues.

It is believed that the part of his statement regarding the political issues might have been better put had the words "when possible" been added, as it is known that Huang Fu has met and very ably handled several perplexing political issues. As previously stated this office believes that Huang is an able man trying hard to do his best for China, after being placed in a most difficult position of responsibility with but little authority.

Perhaps worried over the delay of Huang to return to Peiping there has been considerable activity on the part of various provincial chairmen. Sung Che-yuan of Chahar has been making a prolonged stay in Peiping and only returned to Kalgan on June 12th. General T'ang Yu-lin, infamous for the Jehol debacle, and now a military adviser to the Peiping Branch Military Council, left with him.

Fu Tso-yi of Suiyuan arrived in Peiping on June 3rd supposedly to report to General Ho Ying-chin, Acting Chairman of the Peiping Branch Military Council, reference operations of the Shansi-Suiyuan forces against Sun Tien-ying's rebel troops in the northwest. He left on June 8th for the south in response to a telegram from Chiang Kai-shek. Fu is a young and energetic man who seems to be accomplishing much in Suiyuan. One of Feng Yu-hsiang's former officers, he follows the old Kuominchun troop training system but seems to have a more conservative and practical head on his shoulders than Feng ever exhibited.

General Han Fu-chu of Shantung, so long on the fence as to whether to cooperate or not with Chiang, has been finally won over as mentioned in a previous report (see G-2 Report No. 8816, item 5). After several exchanges of envoys between Tsinan and Nanking, Han arrived in Nanchang on June 7th. He went for a conference almost immediately with Chiang Kai-shek at which was present Mr. Keh Kwang-ting, the Managing Director of the Kiaotsi Railway. Han is another of Feng Yu-hsiang's officers who is making a creditable record. At the present time his province is serving as a sanctuary for the famous "Christian General". It is interesting to note that the Chairman of Chahar, Suiyuan and Shantung are all former subordinates of Feng Yu-hsiang and it is surprising how little influence he exerts over them.

Periodic rumors are again heard to the effect that General Yu Hsueh-chung, Chairman of Hopei, will be moved to Hupeh or Honan and that his place will be taken by General Chang Chun now Chairman of Hupeh. Chang Chun is a returned student from Japan and is reputed to be close to both Chiang Kai-shek and Huang Fu. However, Yu is a powerful man and his loyalty to the Central Government when the Japanese were endeavoring to establish an independent North China last year will be hard to outweigh. Chiang Kai-shek and those who hope for a united China owe more than a vote of thanks to Yu for his refusal to listen to the Japanese at that critical time.

So the political pot in the north is simmering. Leaders are building up their individual fences and Huang Fu is striving to pour oil on the troubled waters from afar. The Japanese are keeping a watchful eye on the situation and Colonel Shibayama, the Military Attache in Peiping, has gone on another trip by airplane to Jehol and Hsinking. Before leaving he stated he was going to exchange views with Colonel Matsui, Director of the special Japanese military mission in Jehol. The trip to Hsinking is said to be for the purpose of making a report to the Kwantung Army concerning conditions in North China, particularly the question of through traffic to Mukden.

It is believed that this trip of Colonel Shibayama's was made mainly for the purpose of keeping the Chinese worried. This is known to be a policy of the Japanese and was confirmed from confidential sources recently since the trip of Shibayama to Tatung and other points along the Peiping-Suiyuan Railway was definitely made for that purpose.

6. The Kuramoto Case.

Mr. Ariyoshi's departure from Nanking would normally have caused the National Government to breathe a sigh of relief. This time, however, it was followed by what looked like either a most unusual occurence or just another manufactured "incident".

It seems that among the officials who prepared to go to the station to assist the departure of the Japanese Minister was Mr. Kuramoto, a Vice-Consul in the Japanese Legation at Nanking. On the night of June 8th Mr. Kuramoto disappeared. The Nanking police combed the town and a reward of $10,000 local currency was offered for his discovery. In addition to this, $5,000 local currency was offered to anyone who could supply adequate clues which would lead to the finding of the missing Japanese diplomat.

Japanese official circles seemed more concerned than the circumstances would warrant as was evidenced by Tokyo despatches. On June 12th the Japanese destroyer "Ashi" left Shanghai for Nanking followed by the cruiser "Tsushimo" the next day. The cruiser "Idzumo" now in Hankow is reported to have also received orders to proceed to Nanking. With referance to this concentration the Nanking Chinese press quotes a spokesman of the Japanese Legation as saying that the mission of the Japanese vessels was to assist in the search for Mr. Kuramoto, but that their marines were not prepared to land. Be that as it may there is no question but that this naval force was a threat to the Chinese Government which the Japanese obviously held responsible for the disappearance of Mr. Kuramoto.

There were many theories as to the fate of this missing official, varying from foul play to a carefully staged preparation for another "incident" which the Japanese might use to bring force to bear on the Chinese Government. Speculation was running high when Mr. Kuramoto was discovered June 13th on Purple Mountain not far from Nanking. He was apparently suffering from some sort of mental trouble as when brought to town by the police, he gave out statements regarding his intention to kill himself and told a fantastic tale of his wanderings. The reward for his discovery is apparently to be distributed among three civilians and various of the Nanking police.

The Japanese officials have had little to say except that they have had to change their attitude from one of condemnation to one of outward commendation. It is known, however, that the Japanese are very much put out because the Chinese allowed Kuramoto to be interviewed by representatives of the press before turning him over to the Japanese authorities. In this, the Chinese made a clver move as now there can be no question as to Kuramoto's own story and the fact that the man was mentally deranged. Had the Japanese reached him first, it is quite certain that the version of his story for the public would have been a different one and that some way to put the blame on the Chinese would have been devised. Past experience gives ample grounds for these views.

7. Prince Chichibu Visits Manchoukuo.

Prince Chichibu of Japan has been making a sort of triumphal tour of parts of Manchoukuo, though his official mission consisted in presenting an autographed message from the Emperor of Japan and the highest decorations to Pu Yi. From all reports it appears that more honor was paid to the Prince than to his mission which is only natural as the whole affair was managed by the Japanese.

According to Japanese sources, the suite of the Prince had a military complexion and all plans for the visit were announced by the Kwantung Army Headquarters. The personnel of the suite consisted of Baron Gonsuke Hayashi, Grand Master of the Court Ceremonies; Lt.-Gen. Kenkichi Uyeda, Vice-Chief of the General Staff; Rear Admiral Shizuye Tsuda in charge of the third department of the Naval General Staff; Mr. Kazuye Kuwashima, Director of the Asia Bureau of the Foreign Office; Baron M. Takei, a Master of the Court Ceremonies; Count T. Mayeda, a Secretary of the Imperial Household Department; Mr. S. Takayama, a Secretary of the Ministry of Colonies; Infantry Colonel H. Yamashita; Flight Lt.-Col. N. Tazuye; Lt.-Commander S. Kuwabara; Mr. N. Kitazawa, a Secretary of the

Foreign Office; Princely Aide-de-Camp Terakura; and Mr. N. Nakane, a Master of the Court Ceremonies.

The first mentioned four members of the suite are said to have personal acquaintance with His Majesty the Emperor of Manchoukuo, while His Majesty was in Tientsin.

Baron Hayashi is said to have seen the Emperor when he was a boy. Baron Hayashi was Minister to Peking twenty years ago. Lieut.-General Uyeda was in command of the Japanese North China Troops in Tientsin and Rear-Admiral Tsuda was Commander of the Second China Squadron and years ago was a Naval Attache to the Peking Legation.

Mr. Kuwashima was Consul-General in Tientsin before the Manchurian Incident.

The trip of Prince Chichibu marks the first visit of a member of the Japanese Imperial family to Manchoukuo. The Prince completed his mission on June 7th and after being feted at Hsinking, Mukden and Dairen left the latter port on June 15th for Moji on the same war vessel on which he arrived, the cruiser "Ashigara".

A significant event of his trip was a special conference in Hsinking when he received reports of Lieut. General Juzo Nishio and Major General Yasutsugu Okamura, Vice-Chiefs of Staff of the Kwantung Army; and the directors (Japanese) of the General Affairs Bureau of the Manchoukuo Ministries of Finance, Administration and Education.

8. Sino-Swedish Expedition.

National Government officials are very pleased over the arrival in Sinkiang of the Sven Hedin Expedition (see G-2 Report No. 8679, item 9) which was sent some months ago to look into the possibilities of road and railway routes from the northwest provinces into Sinkiang province. Dr. Hedin reports that he made the trip with great difficulty and that at one time his expedition was held up by bandits. He stated that he expected to leave for Sweden in a few days but that the rest of the expedition would remain in the Lob Nor district, eastern Sinkiang, to carry out further investigations.

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COMMENTS ON CURRENT EVENTS

June 23 to July 13, 1934

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    - Status of Huang Fu.
    - Relations with Canton.
    - Treaty with Turkey.
2. Revised Customs Tariff.
3. Panchan and Politics.
4. The Kuramoto Case.
5. Kung Visits Shansi.
6. Foreign Agents in China.
7. Through Traffic.

1. THE NATIONAL GOVERNMENT.

Draft Constitution.

On July 2nd Mr. Sun Fo, son of Dr. Sun Yat-sen and Chairman of the Legislative Yuan, sailed for Honolulu. According to friends of Mr. Sun, his trip was for his wife's health and to look for a suitable Honolulu school for his son. It is known that he expects to spend only two weeks in the Islands. In addition to his family, he was accompanied by Mr. Yu Ming, Director of the Shanghai Office of the Ministry of Foreign Affairs, and it is rumored that Sun's return trip will include a stop in Hongkong.

When questioned regarding the new constitution (see G-2 Report No. 8622, item 2) Mr. Sun said that the draft constitution would be brought up at a general meeting of the Legislative Yuan after the summer recess and would later be forwarded to the National Assembly for adoption.

According to Mr. Sun the salient points of the draft are as follows:

> "The National Assembly will be convened once every two years. The term of office of delegates will be four years. One delegate will be elected in every 30,000 people. The President will be responsible to the country for administrative and political affairs.
>
> A commission consisting of 20 persons will be created, and the members will be appointed by the President.
>
> The revised constitution has two additional chapters, one military and the other relating to finance. The former provides that military officers will be unable to become President or to interfere in politics. The governors of provinces will be appointed directly by the Government."

Status of Huang Fu.

Although there are rumors to the contrary, this office has information from what has always proved a reliable source that Huang Fu is closer than ever before to Chiang Kai-shek and that he will return to North China with very powerful backing.

Huang Fu has been staying in the South so as to allow the through traffic problem to be settled by whatever persons and in whatever manner the National Government could arrange. Not that he has been inactive, but he wants to have the onus attaching to this agreement rest on other shoulders than his own, so that he will have less worries on his hands when he again picks up the reigns of government in Peiping.

Rumors are still heard to the effect that the resignation of General Huang will be eventually accepted and that Chang Chun, Hupeh Chairman, will take his place as Chairman of the Peiping Branch Political Council. There is naturally opposition to Huang Fu because he is not openly anti-Japanese but as previously reported, Huang is a realist and sees quite clearly that the only salvation for North China is to adopt a policy of passive and inarticulate resistance against Japan - not forcing any issue.

Because of his Japanese education and former relations with the old Anfu Party, Huang is the most acceptable man for the Japanese. This office will be greatly surprised if Huang Fu is replaced in the North and believes that as long as he remains there, the Japanese will be satisfied on the whole with present conditions in that part of the country. It was never believed that the Japanese would occupy North China and it is not believed that they will do so in the near future.

Relations with Canton.

Notwithstanding the high hopes of Nanking governmental leaders and the recent calm existing on the political seas separating Nanking from Canton, nothing concrete has appeared on the horizon to indicate a lasting settlement between the two parties. Perhaps the lack of news should be considered hopeful as indicating a willingness of the South to come to terms and actively join the Central Government.

General Huang Shao-hsiung, the Minister of Interior and apparently also bearer of political proposals, has been busy since his arrival in Hongkong on June 11th. He was chosen for this duty no doubt because he is a native of Kwangsi. He was greeted by Chen Chi-tang, Li Tsung-jen and Pai Chung-hsi and at once called upon Hu Han-min, the veteran Kuomintang leader.

Another traveller of note has been Ho Chien, Chairman of Hunan, who has been visiting Hongkong and Canton also for the purpose of discussing political and military matters with the same group of notables. General Ho returned to Shanghai on July 1st after a series of important conferences at which were present representatives of the Government forces in Fukien, Kiangsi and many military and civil leaders from Kwangtung and Kwangsi including Pai Chung-hsi.

Rumors from the South suggest a complete split of that section including Hunan from Nanking. Ho Chien, however, states that his mission was to remove misunderstanding between Nanking and Canton and to arrange for cooperation between Hunan and Kwangtung against the Communists. He is now in Nanking and has had conferences there with Chiang Kai-shek. While Ho's loyalty was doubtful for a time, it is now believed that he is working with the Central Government. This office is inclined to discount the reports of Cantonese refusal to listen to Nanking and of an impending break with the National Government and believes that conditions continue to be hopeful for an agreement. There is ample evidence to show that the successful handling of the Fukien rebellion, the effective use of the Nanking air force and the strategic location of Central Government forces in Fukien are strong elements for peace and unity with the South. Chinese sources believe that the status quo regarding Party and political questions will be maintained pending the Fifth Kuomintang Conference.

Treaty with Turkey.

A translation of the new Treaty of Amity between China and Turkey has just been published. The treaty was concluded at Angora on April 4th and ratified by the Chinese Government on May 30th. It is not believed that this treaty will have any effect upon Far Eastern affairs.

2. REVISED CUSTOMS TARIFF.

A revised schedule of customs tariff on imports has been published by the National Government effective July 1st. There are sixteen categories of imports affected. The import duty on cotton and cotton piece goods has been lowered while that on metals and agricultural machinery has been increased. According to estimate of the Ministry of Finance the reduction on cotton and piece goods will reduce their income some three million dollars yearly while the increases will raise their revenue about fifteen million. If their estimates are correct a gain of some twelve million local currency may be expected.

The action of the Government in reducing the duty on imported cotton and cotton piece goods is being severely criticized by Chinese merchants and on July 6th the Shanghai District Chamber of Commerce sent a telegram of protest to the Executive Yuan. The merchants claim that Chinese cotton mills have suffered recently due to dumping of foreign cotton goods, particularly Japanese products and that the lowering of import duties on these items will further increase the difficulties of the Chinese mills.

For a time after the Mukden incident of September 18th, 1931, the Japanese textile trade in China in general and Shanghai in particular suffered greatly due to the anti-Japanese boycott. This, however, has practically ceased now and the Japanese trade has increased. Aided by dumping in all sections the Japanese have made every effort to drive out British and Chinese competition and naturally the effect has been disastrous upon the local industry.

The vernacular press fails to see how this particular action of Nanking can be regarded as consistent with the announced policy of the Government to protect domestic industry. The whole matter was given very little publicity until the regulations were published. This and the fact that it is known that Japan has been bringing pressure to bear upon the National Government to lower import duties on certain Japanese goods (see G-2 Report No. 8679, item 1), leads one to the belief that this particular part of the new tariff was put in as the result of Japanese diplomatic pressure.

It is interesting to note that since China regained control of the Customs in 1928 there have been four revisions of the import tariff. The first was made in February of 1929, the second in January of 1931, the third in May of 1933 and the fourth on the 30th of last May.

3. PANCHAN AND POLITICS.

His Holiness the Panchan Lama and his court are continually making farewells and preparing to depart for Tibet but like Gilbert and Sullivan's famous police force in the "Pirates of Penzance" they remain with us after saying goodbye. They have been greeted, feted and parted with by the populace of a number of localities and now they are back again in Nanking, supposedly to spend the summer at Tangshan Hot Springs just outside the city.

A great deal of publicity was given to a deputation of Lamas who came from Tibet through India to Nanking for the purpose of inviting the Panchan to return to Lhassa. The delegation was headed by the Ahchien Lama and was heralded as coming from the Tibetan Government. Everyone was greatly surprised when the Nanking office of that government telegraphed to Tibet and received a reply that the deputation had not been sent by the Tibetan Government but were only lamas who wished to join the Panchan!

The latest light upon the plans of the Panchan Lama was given out about the first of the month when His Holiness stated that despite numerous requests from the people in Tibet that he return there at an early date to take charge of affairs, he would not leave for Lhassa until after the arrival there of General Huang Mu-sung, special commissioner of the National Government (see G-2 Report No. 8789, item 3). Since a nephew of the late Dalai Lama, temporal ruler of the Tibetans, is at present dominating Tibetan politics, it is believed unlikely that the Panchan Lama, their spiritual leader, will be welcome in Lhassa for some time to come. Perhaps the selection of the new reincarnation of the Dalai, which takes place generally about nine months after the death of the old, may have some effect but it is believed that there are enough of the followers of the late Dalai to prevent a change of the political complexion of the "Country of the Lamas" for a considerable period.

Should Huang Mu-sung ever reach Lhassa with enough to offer the Tibetans, there may be a chance for the Panchan to return, a move which will prove beneficial for himself and also revive the hopes of Nanking for some element of control in Tibetan affairs. At the present writing it is not clear just what the National Government can offer which would prove attractive to the Tibetans.

4. THE KURAMOTO CASE.

There is no question but that the discovery of Kuramoto and the clever handling of the case by the Chinese who allowed the press to interview the lost diplomat before returning him to the Japanese has caused the latter to lose much face. Kuramoto and his family were bundled off quickly to Japan under guard and he has not appeared in print since his wild story of his wanderings on Purple Mountain broke the tension of Japanese "grave consequences" and threat of naval force at Nanking.

According to Chinese sources, Kuramoto was the contact man of the Japanese in Nanking. He appears to have been well liked in Chinese circles but very unpopular with his own people. It is known that he was not on good terms with the head of the Japanese mission in Nanking. Some of Kuramoto's Chinese friends believe that because of his unpopularity the Japanese deliberately plotted to get rid of him and at the same time use this as an "incident" to impose certain demands upon China, such as a military guard for Japanese Legation property in Nanking. They firmly believe that Kuramoto was sent out to commit suicide just for this purpose but lacked courage to do so. This also is the view of the Russian press as given out by the Tass Agency representative in Peiping.

While of course their version is a possibility, it would appear had such a plot been present there would have been available some Japanese patriot who would have been instructed to do a thorough murder job and to fix Mr. Kuramoto so that it would have appeared to have been done by Chinese. It therefore seems more plausible to accept the theory that Mr. Kuramoto was mentally deranged and that the Japanese, as the result of their peculiar characteristic inferiority complex, were preparing to take stronger action than the occasion demanded.

5. KUNG VISITS SHANSI.

Many theories have been advanced in various quarters as to the raison d'etre for the present trip of Dr. H. H. Kung, the Minister of Finance, to North China. Those who remembered his Shansi origin and former affiliations were the best prophets, as on June 29th Kung went to Taiyuanfu from Peiping to be greeted by General Hsu Yung-chang, the Shansi Chairman, and Chao Tai-wen, former Chairman of the Nanking Control Yuan. Upon his arrival Dr. Kung gave out to the press that the purpose of his trip was to:

(1) inspect the various tax organs in Taiyuanfu;

(2) investigate the provincial financial situation;

(3) inquire about the health of Marshal Yen Hsi-shan, Pacification Commissioner of Shansi (see G-2 Report No. 8855, item 4).

From confidential sources it is learned that Kung's real purpose in Shansi was to try and improve relations between Yen and the Central Government. One powerful Shansi official said to Kung that it was about time to decide whether Shansi was to be a part of China or not! It has been quite evident for some time that Shansi was not getting any closer to Nanking politically and the Central Government's concern over this fact has been steadily growing. Yen's railway (see G-2 Report

No. 8860) has not helped the situation as it has been directly paralleling the extension of the Cheng-Tai line.

Kung of course has gone through the motions of presiding over the commencement exercises of "Oberlin in China" at Taiku, of which institution he was founder and still holds the office of principal. He received considerable publicity and no little face by inviting a group of prominent educators and other well known persons from Peiping to visit the institution.

Dr. Kung's personal visit to Hopientsun to visit Yen Hsi-shan before returning is believed to indicate that his preliminary conferences with Shansi officials had been satisfactory. Of course the results of his trip will be unknown for some time to come. Officials who were present at some of the dinners given for the Finance Minister state that it appears that the Nanking Government is prepared to furnish Shansi with a considerable amount of money for which Shansi will disband some two divisions of her provincial troops and some two thousand officers. That some agreement was made seems certain as Hsu Yung-chang, the Shansi Chairman, accompanied by General Yang Ai-yuan, one of his division commanders, arrived in Hankow on July 6th, en route to see Chiang Kai-shek. These facts fit in with indications that Nanking is worried over the increased activity of the Taiyuan Arsenal and to the improvement of its powder output due to the engagement of a foreign expert who was for some years employed by the U.S. Ordnance Department.

These same sources confirm the opinion of this office regarding Dr. Kung that he is much more of a talker than a doer and much inferior to his predecessor T. V. Soong in brains and ability. In this connection it might be mentioned that the concensus of opinion seems to rank Chiang Kai-shek as the most able personality in the National Government at present with Mrs. H. H. Kung as the next. Just now it would appear that Dr. Kung is trying hard to make a name for himself which will match the fact that he is Mrs. Kung's husband.

While en route to Shansi, Dr. Kung held conferences with Sung Che-yuan of Chahar who came to Peiping for the purpose of discussing the financial affairs of his province. According to General Sung the monthly revenue of Chahar was only $400,000 local currency while the expenditure was $700,000. From talks with local finance officials and visiting Mongols, it is learned that Sung is emphasizing the inability of his province to balance its budget in order to oppose the plan of the Nanking authorities to remit a percentage of the land tax on former Mongol lands, now a part of Chahar and Suiyuan, to the Banner to which the lands originally belonged (see G-2 Report No. 8838, item 5). This is Sung's effort and the same effort to save his revenues was made by Fu Tso-yi of Suiyuan on his recent personal visit to Nanking. The result in both cases is not known.

6. FOREIGN AGENTS IN CHINA.

The Chinese Government has recently been endeavoring to oppose the policy of the Japanese in stationing military and naval officers at various places in China. These Japanese officers are not attached to their diplomatic mission nor are they in China as the result of any treaty agreement between the two countries.

Regulations have been issued in Nanking to the effect that foreign military officers must be properly accredited to their respective diplomatic missions or otherwise they will not be entitled to the customary diplomatic privileges. While these statements are general in nature they are of course directed against the Japanese as it is known that the Chinese have been trying for some time to check up on the large number of "resident officers" and other Japanese military and naval personnel which are constantly travelling through China.

In addition to these official agents, there are always a large number of Japanese - tourist agents, commercial men and what not - many of whom have been furnished quasi-diplomatic passports by the Japanese authorities. This has led to a tightening of passport inspection rules in Chahar, Suiyuan and Shansi. Now all the hotels in these provinces are visited by passport inspectors from the Provincial Foreign Affairs Office, the local Peace Preservation Corps, and the Military Police of the army garrison. Trains and busses are also checked carefully at every stop and all foreigners and some Chinese asked for passports or visiting cards. In a recent trip in the three provinces named above, the undersigned used over three hundred visiting cards in about two weeks. In most places a visiting card is sufficient and often accepted in preference to a passport - and apparently never questioned. Invariably these passport inspectors, when questioned, stated that they were interested especially in Japanese tourists. That these instructions are from high authority is evidenced by a statement made by Fu Tso-yi, Chairman of Suiyuan, who stated that he had personally seen the record of every Japanese who had been in his province in the last six months.

There is no doubt but that the Chinese Government will endeavor to curtail espionage by keeping track of these various travelling Japanese as well as possible and also by calling attention to such people as "resident officers" whenever occasion arises. However, it is not thought that the Japanese will pay any attention whatever to the Chinese. It is even believed that an increase of Japanese activity may be expected since the Director of Mongolian Affairs of Manchoukuo stated to a contact of this office that while the Japanese had given up any ideas of political activity in Inner Mongolia, they would continue their commercial penetration. This office believes the latter statement but doubts the former as Japanese political agents were seen in Inner Mongolia during a personal investigation of that territory less than six weeks ago.

7. THROUGH TRAFFIC.

After a prolonged epidemic of rumors, reports, confirmations and denials, the much discussed question of through traffic between the Peiping-Tientsin area and Mukden has been settled. There is no doubt that a decision was reached some time ago by the Nanking Government but that disagreement in high political circles prevented the public announcement of the detailed plan.

Following conferences at Dairen and Tientsin, it was allowed to be known that Mr. Yin Tung (Japanese returned student), Managing Director of the Peiping-Liaoning (Peking - Mukden) Railway, had concluded an agreement with the Japanese for the restoration of through traffic and that the agreement would be released by both the Chinese and the Japanese on June 28th. The Chinese version was put out in the form of a railway notice by Yin Tung, a free translation of which is given below:

> "With reference to the through traffic question, the undersigned, having been instructed by the Peiping Political Council to negotiate with the Japanese on the basis of the principle approved by the Chairmen of the Executive Yuan and the National Military Council, accordingly opened negotiations with the Japanese and agreed upon various measures governing through traffic. These measures have been reported to the Executive Yuan and received its approval. They come into effect on July 1. I hereby publish them below:
>
> (1) Beginning July 1 direct passenger traffic between Peiping and Mukden shall be restored. The service shall be confined to one train from each end daily.
>
> (2) The China Travel Service and the Japan Tourist Bureau have been entrusted by the Chinese and the Japanese sides respectively with the task of organizing an Oriental Travel Bureau at Shanhaikwan to handle all matters connected with such through traffic.
>
> (3) All such matters as the operation of trains, their schedules and composition and the sale of tickets shall be regulated by this administration separately.
>
> Signed: YIN TUNG
>
> Dated: June 28, 1934."

The official Japanese notice given out by Colonel Shibayama, their Military Attache in Peiping, was as follows:

> "(1) As the result of careful consideration by the Japanese and Chinese Authorities on the pending question of through train traffic, a decision was reached to operate one train daily from the Peiping and Mukden ends respectively, commencing on July 1, under the management of the Eastern Tourist Bureau, which is to be organized at Shanhaikwan.
>
> (2) All matters concerning the through traffic shall be dealt with by the Eastern Tourist Bureau.
>
> (3) Details as to time-tables, composition of trains, handling of passengers' baggage, sales of railway tickets, etc., shall be published by the railway authorities."

According to these announcements given above, the first through train for Mukden since the incident of September 18th, 1931, left Peiping at 8:45 a.m. In addition to sixteen Chinese railway police, the train carried some Japanese soldiers commanded by a chief warrant officer. At Tientsin a few more Japanese military boarded the train, among them being Major Oka, a staff officer of the Tientsin Japanese command.

When the train arrived at Tangshan a party of Japanese school children waving Chinese flags greeted the train and scattered dodgers to the passengers which announced:

"We celebrate:

the opening of Sino-Japanese through train service;

the inauguration of the Oriental Travel Service;

the restoration of Sino-Japanese relations.

Asiatic School,

Tangshan, Hopei Province,

Republic of China."

This incident is typical. It has been quite evident from the start that the Chinese have been trying to divorce this through traffic question completely from its political aspects while the Japanese are laying particular stress upon just this phase of the matter.

At about 1:15 p.m. when the train was near Chating Station about seventy-four kilometers from Tientsin, a bomb exploded in the first third-class car next to the engine. The train stopped to allow removal of dead and wounded, the car was taken off and the train continued its journey without further incident.

In the explosion three were killed instantly and twelve wounded, two of whom were later reported to have died from their injuries. The Japanese theory is that the bomb was placed there by Chinese as a protest. Many Chinese believe the Japanese put it there to make an excuse for carrying Japanese guards on the train, as the Japanese announced some time ago that they feared acts of unruly Chinese elements. However that may be, Japanese soldiers rode on the through trains from July 1st to 8th - the train arriving in Peiping on the morning of the 9th being the first to run without carrying Japanese armed guards.

The present plan is to have one train each way every day. The train from Peiping will leave daily at 8:45 a.m., arriving at Shanhaikwan at 6:40 p.m. the same day and reaching Mukden at 6:45 a.m. next day. The train from Mukden will leave there at 10:15 a.m. one day and arrive in Peiping at 9:18 a.m. the next day. One of these trains uses South Manchurian Railway cars while the other is the regular Chinese equipment.

The situation at Shanhaikwan on the border between China and Manchoukuo is peculiar. This old town, famous as the gateway to Manchuria, has now become the bottleneck, through which the force of Sino-Japanese relations must pass for the time being. Japanese activities which were thought at first to be confined to the Tunglocheng section are now believed to be planned inside the city proper. The offices of the Manchoukuo telegraph and postal service, railway police, etc. are all in the main town. Major Giga of the Kwantung Army is in joint charge of the Shanhaikwan branch of the Foreign Affairs Department of the Kwantung Army and the provincial branch of the Manchoukuo Foreign Affairs Office. Perhaps the Japanese plan eventually to move the Manchoukuo installations into the Tunglocheng, but there is no evidence of this intention at the present time.

In the main city Chinese dressed in the newly designed uniforms of Manchoukuo railway police, railway employees and customs officials, officered by Japanese in the same uniforms mingle with Chinese in the uniforms of Chinese railway police, railway employees and customs officials. An unusual scene is a special unit of Russians dressed as Manchoukuo railway police - some eighty strong - who travel back and forth from Shanhaikwan to Mukden.

The Chinese have no export customs examination as they consider Manchoukuo as part of China. They have an import customs examination to hold up Japanese goods. The Japanese controlled Manchoukuo customs authorities are very particular with passengers both entering and leaving Manchoukuo. Passengers must debark at Shanhaikwan and have all baggage inspected. The through trains are held there over an hour while these examinations are made.

Following resumption of through railway traffic, there are rumors of postal negotiations in the offing and also of the opening of Chinese customs houses at various passes along the Great Wall. Most of these rumors can be traced to Japanese sources. There are also reports of further discussions reference the abrogation of the Tangku Truce, retrocession of passes and complete withdrawal of Japanese troops from the Wall. These as yet are all rumors but it is believed that the Japanese, having secured through railway traffic, will soon push for resumption of postal relations, holding out abrogation of the Tangku Truce and other points named as bait.

S. V. Constant.
S. V. Constant,
Major, Cavalry (D.O.L.),
Acting Military Attache.

Distribution:
- 6 MID
- 1 Legation
- 1 Tientsin
- 1 Tokyo
- 1 Manila
- 1 Guard
- 1 N/A
- 1 File

OFFICE CHIEF OF STAFF
MIL. INTEL. DIV.
AUG 29 1934
WAR DEPARTMENT

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COMMENTS ON CURRENT EVENTS

July 14 to 28, 1934

RECEIVED G/2 W. D. AUG 28 1934

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1. THE NATIONAL GOVERNMENT.

Ku Meng-yu Case.

There has been a tempest in a tea pot over the case of Mr. Ku Meng-yu, the Minister of Railways. Ku was impeached by the Control Yuan in connection with a loan he is alleged to have concluded with French Railway interests. He denied the charges and was said to have the support of the whole Cabinet. Mr. Yu Yu-jen, Chairman of the Control Yuan, has issued a lengthy statement on the matter and stated among other things that they had "not yet succeeded in impeaching one official".

Latest reports indicate that as a result of the intervention of Lin Sen, Chairman of the National Government, and General Chiang Kai-shek the disagreement between the two Yuans has been removed, at least for the time being.

Kung Returns.

Making use of the large Condor plane belonging to the Ministry of Finance, Dr. H. H. Kung flew back to Nanking via Sianfu and Kaifeng. Upon his arrival he expressed himself well satisfied with the results of his trip and conditions in the North. It was thought that Kung might visit Shantung on his way back as he is concurrently Chairman of the Yellow River Conservancy Board but for some reason he returned to Nanking from Kaifeng. It is thought that the impeachment of Ku Meng-yu is the most likely cause for Kung's change in plans. Since his return he has been busy explaining to irate Chinese industrialists the measures of the new import tariff which are claimed to favor Japanese importers.

Soong in Shantung.

T. V. Soong is combining business with pleasure in his trip to Shantung. While visiting his family who are summering at Tsingtao, Soong has been taking advantage of the opportunity to see General Han Fu-chu, Chairman of Shantung. General Han is understood to be even more anxious to meet Soong and try to secure some funds from the National Economic Council for road and waterway development in Shantung.

Some Chinese press reports credit Soong with the idea of enlisting Han to help him against the Nanking Government, but no confirmation of these allegations can be found. Soong is believed to be loyal to Nanking and Han gives every evidence of a change of heart and a desire to cooperate with Chiang Kai-shek.

2. SINO-JAPANESE RELATIONS.

The constantly changing scene of Sino-Japanese discussions has shifted once more and this time to Dairen. Following the resumption of through traffic between Peiping and Mukden (see G-2 Report No. 8871, item 7) and the bombing incident, Mr. Yin Tung, the Managing Director of the Pei-Ning Railway, tendered his resignation. Forced into the position of conducting negotiations with the Japanese, ostensibly in his position as a railway man but actually acting as a diplomatic representative of China, he found the job a little too much for him. He therefore tendered his resignation but by some unknown political manouvering was induced to continue in office.

On July 20th Mr. Yin arrived in Shanghai and at once called on Mr. Tang Yu-jen, Vice-Minister of Foreign Affairs. There was a conference at Tang's house at which Mr. Arino, First Secretary of the Japanese Legation, Mr. Yin Tung and Mr. Li Tse-yi, a member of the Peiping Branch Political Council, were present as well as Mr. Tang. After the conference Mr. Arino intimated that they had exchanged views on the Sino-Japanese situation in North China. He stated that the meeting was only a friendly discussion and that the Tangku Agreement was not touched on. He made a significant statement when he remarked that the Tangku Agreement would be taken up by the Japanese Kwantung Army and that the Japanese Government was not directly concerned! This utterance is remarkable in itself but received only little attention since the Far East is used to the Kwantung Army taking unto itself the powers of the Japanese Diplomatic Corps and even speaking for the Japanese nation when occasion arises.

Following another conference at which were present Huang Fu and Tang Yu-jen, the versatile and much travelled Mr. Yin left Shanghai by steamer for Dairen. While there he has met with Major-General Yasutsugu Okamura, Vice-Chief of Staff of the Kwantung Army, Colonel K. Shibayama, the Military Attache in Peiping, and Colonel Kita of the Kwantung Army Headquarters. It will be remembered that both General Okamura and Colonel Shibayama were members of the Japanese delegation at the signing of the Tangku Agreement.

Chinese official circles announce that the purpose of Yin Tung's trip was to ascertain the views of the Kwantung Army leaders concerning the various unsettled problems in the demilitarized zone which arose as the result of the Tangku

Truce. The Japanese Foreign Office has issued a statement to the effect that no word has been received from Nanking concerning the alleged desire of the Chinese Government for the abolishment of the Tangku Agreement. There is no question but that the Chinese would like to see the agreement set aside but it is equally certain that the Japanese are not any too anxious to do so. At the present writing no news has been heard from Dairen as to the matters actually discussed.

3. KWANTUNG ARMY AND THE SOUTH MANCHURIA RAILWAY.

So far as is known there has been no settlement of the issue regarding the reorganization of the South Manchuria Railway (see G-2 Report No. 8780, item 7). It will be remembered that this question was brought up under the general plan of economic reorganization of Manchoukuo in preparation for war. The Railway authorities themselves, the Kwantung Government, the Tokyo War Office and the Overseas Ministry have all put out statements at different times but none have been in accord.

It is understood that there has been only one point on which an agreement has been reached, that being the recognition of the basic principle that (1) Japan's fundamental Manchurian policy must be concerned with national defense and the development of strategic industries, and (2) the South Manchuria Railway should constitute the spearhead of Japanese effort.

The Kwantung Army of course has been working for the dissolution of the South Manchuria organization with the resulting transfer of all authority to military supervision. They have been opposed in this by the Overseas Ministry who were backed by certain Cabinet members and influential money interests. This office of course is only in a position to observe the results of the Japanese actions as they effect Manchoukuo, but it would appear from a glance at the new Japanese Cabinet in which the Overseas Ministry is apparently slighted that the Kwantung Army might have an easier time in securing their demands.

4. BRITISH BUSINESS INTERESTS.

There are many indications that British business firms are endeavoring to cultivate good relations with the Japanese. This is true not only in Manchoukuo but also inside the Wall. It is known that the British-American Tobacco Company agents in Manchuria are making every effort to be friendly with the Japanese and feel that they will gain thereby.

Not long ago one of the B.A.T. agents was contemplating a trip into Ninghsia in company with a well known American writer and investigator of Far Eastern Affairs. Plans for the trip were proceeding when the Britisher was informed by the Tientsin manager of the B.A.T. that he would not be allowed to travel with the American writer because that individual was persona non grata with the Japanese!

It is also quite evident that the British head of the Kailan Mining Administration in Shanhaikwan is bent on keeping in the good graces of the Japanese. He apparently takes every opportunity to entertain the representatives of the Kwantung Army and at a recent dinner made a very complimentary speech to them in which he made a point of the friendly relations existing between the K.M.A. and the Japanese military.

Aside from the realization that where the Japanese hold the whip hand it is good business policy to be friends, there is considerable feeling among the British to the effect that China would be better off under Japanese control. A certain amount of this is believed to be due to the fact that British trading interests think they will do better under a military government controlled by the Japanese but it is the belief of this office that the temporary advantages seemingly enjoyed by British business in Manchoukuo will not endure and that the "open door" will soon be found ready only to admit by the password "Made in Japan."

5. SITUATION IN NORTH CHINA.

There is no question now but that Huang Fu is purposely delaying his return to North China in order to secure greater power in handling affairs in that area. At first he planned to wait until the through traffic question was settled but it is becoming increasingly evident that he has further ideas. As head of the Peiping Branch Political Council, Huang has considerable power but as an old military man it displeases him to have Ho Ying-chin, the Minister of War, in Peiping with the ruling hand in military affairs.

Huang wants some troops of his own despite the influence of his charming and able wife who has been striving for some time to separate her husband from the military. Chinese official gossip indicates that Huang would like to be made the Chairman of Hopei Province in place of Yu Hsueh-chung. Chiang Kai-shek is reported to be not adverse to this but does not wish to move Yu Hsueh-chung to the south where he might link up with his former commander, Chang Hsueh-liang. Then too the fact that Yu stood loyal to Nanking when the Japanese were working for a separatist movement in the North is a big point in Yu's favor and a thing which the Generalissimo cannot overlook in any proposed changes in high command. As to these rumored changes, nothing more substantial can be learned at the present time.

It is believed that the general opinion in Nanking is opposed to giving too much power to Huang Fu in dealing with the Japanese. This has been proven in the past and was one of the main causes for Huang's trip to the South. As noted above it is believed that Huang demands this power as the basis for his return to Peiping but just how much he will get or how much he will be satisfied with after compromise is unable to be foreseen. The National Government leaders are afraid that if too much power is ceded to Huang he may be forced into a position which will commit the Government and jeopardize the safety of the whole country as well as the integrity of North China. This they wish to avoid and would like to continue a policy of procrastination in the hope that delay and inertia will impede the Damoclesian sword of the Kwantung Army.

Very little is heard about the opening of postal relations between China and Manchoukuo. It is known that the Chinese Customs authorities are making plans to open offices along the Wall and have sent Mr. Chang Yung-nien to Peiping as head inspector for the same. He has already made an inspection trip to Koupehkow. This leads to the belief that some arrangements have already been made with reference to postal matters. One very reliable Chinese source states that an agreement has actually been signed between the Chinese and Japanese but that it awaits approval of the National Government.

6. NEW SOVIET COUNSELLOR IN PEIPING.

Mr. Ivan Spilvanek who has been representing the U.S.S.R. in Peiping since the departure of Mr. V. Barkov has been recalled to his former post in Shanghai. He has been replaced in Peiping by Mr. A. Bitner who has just come out from Moscow.

It would thus appear that Mr. Barkov will not return to Peiping and lends color to the gossip that the O.G.P.U. reported him for entertaining too well and entering into the diplomatic life of the city on a par with the representatives of the imperialistic nations. Mr. Barkov is reported to be summering in the Caucasian mountains but whether above the ground or under it is not mentioned.

Mr. Ritner was First Secretary of the Soviet Embassy in Peiping some years ago when the Chinese authorities raided the property of the Chinese Eastern Railway and the Soviet Military Attache's Office in search of some dangerous Chinese communists. With this background and having come direct from Moscow, Mr. Ritner may be expected to present the latest style in Soviet diplomats. He appears to be over confident in his own ability and to have the answer to every question before it is asked. The new Counsellor is quite a contrast to Barkov and Spilvanek who come obviously from better stock.

7. CONFERENCE IN FORMOSA.

On July 18th a conference of Japanese consular officials from South China was opened in Formosa. According to the press this meeting was called by the Governor-General of that island and was attended by Japanese Consuls stationed at Foochow, Amoy, Yunnan and other ports. The Japanese Minister to China, Mr. Ariyoshi, also sent a representative.

Japanese sources state that the purpose of the conference was to discuss measures of collaboration between Japanese Consular officials in South China in the matters of development of Japanese trade and protection of Japanese nationals residing in their respective areas. Some quarters believe that using Formosa as a base for the South, like Manchoukuo and Jehol are utilized in the North, that Japan intends to bring pressure to bear in order to push the same policy of economic penetration and cooperation in the former as she is endeavoring to use in the latter.

It is known that the slackening of the anti-Japanese boycott, the reduction on import duties on cotton goods and the opening of through traffic to Mukden have raised the hopes of many a Japanese business man. No less than 2800 tons of cotton products, sugar, beer, enameled ware and other cargoes were shipped to Shanghai on the first Japanese freighter which sailed from Japan following the enforcement of the revised tariff. However, it should be realized that in South China there is no Kwantung Army with a ready sword at the back door and also that the heart of anti-Japanese boycott has always been in South China. It is believed that the Japanese commercial ship will have rougher waters to navigate in the South than in the North.

8. CHINESE AVIATION MISSION.

Colonel P. T. Mao (Maw) accompanied by some twenty-five others left on July 15th for Europe. Colonel Mao (see G-2 Report No. 8847, item 2) has been Director of the Hangchow Aviation School and it will be interesting to see whether his appointment as a special investigator of aviation matters abroad will mean his definite removal from Hangchow.

He was accompanied by five staff officers and twenty graduates of his school. They plan to go first to Italy where the twenty students will receive some training in Italian schools. After Italy the mission is scheduled to visit Germany, France, Great Britain and the United States, returning to China in about eight months.

9. RAILWAY MEETING IN HONGKONG.

On July 12th a railway conference was held in Hongkong at the Colonial Government Building between representatives of the Canton-Kowloon Railway and the Chinese Government. The Chinese delegates were Chang Wei-tsu and Mo Chich-fu, technical experts of the Nanking Ministry of Railways; Li Hsien-ken, Hu Chao-tung and Kuang Yueh-ho of the Chinese section of the Canton-Kowloon Railway; Hu Chi-hsien, Li Shih-shan and Hsia Hsuan of the Kwangtung Provincial Government. The Hongkong Government was also represented.

It is understood that the question of joining the tracks of the Canton-Kowloon Railway with those of the Canton - Hankow Railway (Southern Section) at Canton was discussed. When this matter was talked of some time ago there was strong opposition to such a move by the public bodies of Canton.

At the present time there is no physical connection at Canton between these two railway lines. Much time is lost in transshipping goods from one station to the other. The obvious advantages of a rail connection are of military as well as of commercial value and will become even more important when the two sections of the Canton-Hankow Railway are joined and there is through traffic from the Yangtze valley to South China.

10. RUSSIA AND JAPAN IN MANCHURIA.

Verbal skirmishes continue between the representatives of Russia and Japan. Following difficulties over navigation of the Amur (see G-2 Report No. 8847, item 7) it was agreed to call a Navigation conference at Taheiho. This was done and on July 14th it was reported that both Manchoukuo and Soviet delegates had agreed on the following:

(1) That aids to navigation be installed on each side of the Amur River, the expense to be borne seperately by Soviet Russia and "Manchoukuo".

(2) That Soviet Russia and "Manchoukuo" for the present continue to aid frontier navigation seperately until such time as finances permit Soviet Russia to cooperate with "Manchoukuo" in joint enterprises.

All seemed most hopeful when the Tass News Agency published a report to the effect that at a banquet given by the Soviet members at the Soviet Consulate, Captain Miyazaki of the Japanese Military Mission in Taheiho was apprehended taking some documents and correspondence belonging to the Consulate. The Tass report states in plain language that:

> "Before the end of the banquet, Colonel Miyazaki left the banquet hall and went up to the first floor.
>
> Thinking apparently that there was no body upstairs, Colonel Miyazaki entered the office of the secretary of the Consulate and succeeded in taking from the desk and the drawer various documents and correspondence of the Consulate.
>
> Colonel Miyazaki then attempted to leave the Consulate unnoticed with the documents but was detained by the secretary of the Consulate and the charwoman who took the stolen documents from the Colonel and let him out."

This Tass release caused the Kwantung Army to rise in wrath and issue the following statement:

> "The Tass report is a characteristic Soviet fabrication.
>
> Having enjoyed himself thoroughly at a banquet given by Soviet officials following a meeting of the Soviet-Manchoukuo River Navigation Conference on July 3rd, Captain Miyazaki intended to return after thanking Mr. Shukoff (?), Secretary to the Soviet Consul, but he found the front door locked. Although Captain Miyazaki called a boy repeatedly, there was no answer. He, therefore, entered the reception-room, the door of which was thrown open, and was sitting in a sofa. After a short while Mr. Shukoff (?) came in and said "It is still early", to which Captain Miyazaki answered "Thanks, I enjoyed myself thoroughly" and returned home.
>
> These are all the facts. It could not be imagined that secret documents are left at reception-rooms of Soviet Government offices. Moreover, Nippon military officers would never commit crafty and unscrupulous acts, which are frequently committed by those who prevent the truth. Notwithstanding that we have been dealing with sincerity and good will they some time ago published mysterious documents and again without scruples they emanated a fabricated report in defiance of international faith. We are at a loss to comprehend their real intention, and at the same time regret that

the Soviet Union is losing her prestige owing to unscrupulous acts of a number of her citizens.

However, inasmuch as the honour of a military officer in the active service has been damaged by their fabrication, we deem it necessary to call them to account. We could not allow it to pass as a fabricated report of the Tass News Agency, which is acknowledged by the world as a news fabricating organ."

A Japanese protest over the matter was filed with the Soviet Consulate-General in Harbin on July 22nd by Colonel Komatsubara who is "Resident Officer" there. According to Japanese reports the protest was rejected by Mr. Slavutzky, the Soviet Consul-General. The Japanese authorities are much exercised over the matter while the Russians seem to be rather enjoying the situation.

S. V. Constant.
S. V. Constant,
Major, Cavalry (D.O.L.),
Acting Military Attache.

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July 28 - August 9, 1934

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    - Fifth Kuomintang Congress
    - Hu Han-min
2. Sino-Japanese Relations
3. Panchan in Peiping
4. League Experts
5. British Maneuvers
6. Mission to Hsikong and Tibet
7. British Railway Activities

THE NATIONAL GOVERNMENT

Another Kuling Conference?

Indications point to further conferences at Kuling, that famous summer resort near Kiukiang. Chiang Kai-shek is making his summer headquarters at Kuling, where he is conducting a series of training courses for field officers and higher commanders in the nearby Lushan area.

Chiang is holding true to form in keeping away from Nanking and it is a strange condition to see so much of the really important business of the Government being transacted at Shanghai, Nanchang, Kuling, Mokanshan, and other places. This however is typically Chinese since the greater part of any business or governmental deal is never transacted in an office but over the dinner or tea table.

Then too, the Generalissimo always claims to feel hampered by the political complexes of the capital and so the mountain must come to Mohammed. Prominent in this process are indications that many of the outstanding figures in the Government are planning to visit Kuling in the near future. These include

Wang Ching-wei, President of the Executive Yuan
Huang Fu, Chairman of the Peiping Political Council
Dr. H. H. Kung, Minister of Finance
Yin Tung, Managing Director of the Peiping-Liaoning Ry.
Tai Chi-tao, President of the Examination Yuan
Huang Shao-hsiung, Minister of the Interior who has recently been on a mission to Canton
Tang Yu-jen, Vice-Minister of Foreign Affairs

According to information from reliable sources, Huang Fu, Yin Tung and Tang Yu-jen have been holding discussions at Mokanshan as the result of which Huang Fu will go to Kuling. It is therefore expected that the conversations at Kuling will certainly cover Sino-Japanese issues in North China as well as such matters as questions concerning Hu Han-min, a policy toward the Southwest, and the Fifth National Kuomintang Congress.

Fifth Kuomintang Congress.

According to an announcement by Mr. Chu Ming-yi, Secretary-General of the Executive Yuan, the Fifth National Kuomintang Congress will be held in Nanking next November. No doubt much of the recent visiting of politicians and military leaders to the capital has been made in an endeavor to do a little judicious fence-patching. In addition to this, for the Northern leaders, there has been a desire to ascertain what might lie behind the scenes in preparation for the next act to be staged in North China. Whether or not they succeeded in satisfying their curiosity is not clear but from conversations with representative sources it appears that there is a general feeling that there will be little of moment in political changes prior to the Fifth Kuomintang Congress.

The situation vis-a-vis Canton appears to be held in abeyance also. Following the trip of Ho Chien to the South there was the usual epidemic of rumors, started by all who wished ill to the Central Government, to the effect that a definite settlement was impossible between the two factions. The Japanese news agencies were unusually sure of this, but the best available information does not bear out their pessimism.

The Cantonese group are proverbially against any ideas save their own but as previously mentioned the continued strength of Chiang Kai-shek and the strategic location of his troops following the collapse of the Fukien Rebellion are high cards in the hands of the Nanking Government. No developments are looked for in this situation until the coming Congress in November.

Hu Han-min.

The present status of Hu Han-min in Hongkong is causing much speculation. Regarded as one of the older heads of the Kuomintang, he exerts considerable influence even though he occupies no official position. At the present time he is virtually a prisoner, living behind barred gates and locked doors with Sikh watchman to prevent attempts upon his life.

Some weeks ago it was rumored that he would go abroad on a pension as it were, for the supposed purpose of inspecting overseas Kuomintang organizations. This has not materialized and it is very much doubted whether such reports have any foundation. Several attempts have been made to induce Hu to come to Nanking but to no avail. It is understood that Sun Fo will call upon him in Hongkong when Sun returns from his Hawaiian trip.

2. Sino-Japanese Relations.

Mr. Yin Tung, the railway-diplomatic representative of the Chinese Government, returned to Shanghai on June 27th from Dairen where he went to discuss current questions with representatives of the Kuantung Army. Shortly after his return he issued a written statement to the press, a most unusual act for a Chinese delegate under these circumstances. Mr. Yin stated:

"I left for Dairen by the Dairen Maru on July 21 and returned to Shanghai by the same steamer today. On July 23 and 24 I had two meetings with Major-General Okamura, Vice-Chief of Staff of the Kuantung Army, Colonel Kita of the same army and Colonel Shibayama, Japanese Military Attache in Peiping, each meeting lasting about five or six hours, including the time for meals. The vernacular press has devoted considerable space to the Dairen Conference; as a matter of fact, there was no formal conference: what happened was that we got together and exchanged views. There was no agenda nor were any minutes kept.

"It is true that these meetings originated with the Chinese side. In the course of recent discussions at Mokanshan between General Huang Fu and myself and other leaders regarding the situation in North China, it was felt that something must be done at once to liquidate the various complicated questions in the demilitarized zone. General Huang accordingly requested me to make a trip to Dairen.

"Pending the submission of a report to the Government I cannot reveal very well the contents of my discussions with the Japanese leaders, but since the discussions were initiated at our request, it follows that the subjects discussed were brought up by us. Roughly speaking, they were as follows: (1) Regulation of undesirable Japanese and Koreans; (2) Reorganization of the special police organized from among the former troops of Generals Li Chi-chun and Shih Yu-san; (3) Entry of the newly organized special police; (4) Retrocession of Malanyu and the Tung Ling; (5) Withdrawal of Japanese troops; (6) Rehabilitation of the districts in Luantung; and (7) Restriction of the activities of the Ta Tung Kung Ssu.

"These questions were thoroughly discussed and although the solutions suggested fail to come up to the full measure of our expectations, they represent a considerable improvement over the present state of affairs. If General Huang returns to the North and takes the lead in instructing the local authorities to carry out the various measures step by step, I am sure that the existing difficulties in the demilitarized zone can be overcome eventually.

"The question of the abrogation of the Tangku Armistice was not formally discussed at the conference. Personally I believe that if China formally brings up this question Japan has no valid ground for objecting to its abrogation. However, this is a question which should be carefully considered by the National Government before any definite step is taken.

"The Japanese brought up the question of through postal relations but I expressed my inability to take it up as it was beyond my competence".

(Note: In the subjects noted above as discussed there are several points necessary of explanation. In item (4) "Tung Ling" means "Eastern Tombs" - the tombs of the Manchu Emperors near Malanyu, Hopei Province. In item (5) "Ta Tung Kung Ssu" refers to the transportation company organized by the Japanese to transport articles from Peiping to Koupehkow and Jehol City primarily for the supply of the Japanese troops stationed at those places.)

Mr. Yin further announced that he was going to Mokanshan to report to General Huang Fu, and also stated that whether he would resume his duties as Managing Director of the Peiping-Liaoning Railway depended upon General Huang's return to North China, as he had emerged from his retirement last year for the purpose of helping General Huang. Mr. Yin actually had an interview with Tang Yu-jen, Vice-Minister of Foreign Affairs, and then left Shanghai for Hangchow en route to see Huang Fu at Mokanshan.

The statements and actions of Yin Tung are a departure from the usual procedure in the Far East and savor more of the T. V. Soong type of diplomacy which believes in judicious publicity. It would seem evident that China has everything to gain and nothing to lose by telling the world all possible concerning present Sino-Japanese discussions.

After the arrival of Yin Tung at Mokanshan there took place several discussions at which were present General Huang, Yin Tung, and Tang Yu-jen, which apparently cleared the atmosphere considerably. Mr. Wang Ching-wei, President of the Executive Yuan, issued a written statement expressing satisfaction that a solution of the difficulties in North China had at last been found, these difficulties involving the expulsion of the undesirable elements, the reorganization of the Pao An Tui (Peace Preservation Corps), as well as other questions affecting the demilitarized zone.

Rumors that have appeared to the effect that the problem of economic cooperation between China and Japan had been settled were denied by Mr. Wang, who stated that this point was not brought up for discussion. He further announced that a second trip of Tang Yu-jen to see Huang Fu was at the orders of the Central Government in an endeavor to have General Huang return to Peiping, since though the general foreign policy of China was laid down by Nanking the execution of these policies must be carried out by the local authorities.

Based upon the trip of Yin Tung to Dairen and that of Tang Yu-jen to Mokanshan, it is evident that conditions are shaping as desired by Huang Fu as Tang later confirmed the report that the General has withdrawn his "resignation" and will return to Peiping soon. Of course it has been quite evident that Huang has been conducting affairs in Peiping from Mokanshan. In addition to the problems noted above, it is learned from confidential sources that he has been particularly interested in the situation in Inner Mongolia and in addition to sending special investigators there from the South he has requested repeated telegraph reports on Japanese activities, troop locations in Jehol and other matters. All this shows that he is keenly aware of the political-military situation in North China and is keeping posted as to the exact situation at all times.

Aside from the facts noted, there is no other information available regarding the decisions reached as the results of the Dairen and Mokanshan discussions. There is every indication, however, that Huang Fu is better satisfied with the situation than he has been for some time. The fact that he plans to visit Chiang Kai-shek at Kuling is a further indication that the National Government is willing to compromise and should this trip materialize, it is safe to assume that Huang Fu will return shortly to continue his difficult task of administering affairs in North China.

3. Panchan in Peiping.

After a series of farewells, and returns which necessitated additional farewells, the Panchan Lama finally left the Shanghai-Nanking area (see G-2 Report No. 8871, item 3). He created quite a sensation by flying in one of the big Eurasia planes to Peiping where he arrived late in July. While some of his entourage went ahead by train to make arrangements for his reception, the Panchan was accompanied by the Shenpen Kanpu and the Tafu Kampu; two Tibetan secretaries; Chu Hai-shan, the vice-director of the Nanking office of the Panchan, and a Chinese liaison officer.

While in Peiping, His Holiness is staying in a section of the former Palace grounds not far from the buildings occupied by Ho Ying-chin, the Minister of War. He is being wined, dined and consulted just as when in Shanghai and Nanking but nothing constructive has yet appeared. Latest reports indicate that he will remain some weeks in Peiping and there visit Inner Mongolia.

It is known that many of the Mongol princes wish the Panchan to make a prolonged visit to that territory and possibly use him as an aid in the Mongolian autonomy movement. Te Wang (Prince Teh), the Secretary of the Autonomy Council, has spent many thousands of dollars in the construction of a palace for Tibetan dignitaries. This is a really spacious structure, the fifty workmen and nearly all of the material being brought from inside the Wall and transported several hundred miles northwest of Kalgan to the Mongolian plateau near Te Wang's own palace. The younger Mongols are most enthusiastic over the autonomy movement and the leaders, while opposed to the lamas, are trying by means of the Panchan to solidify further the older elements among the Mongols in the interests of an independent Mongolia.

4. League Experts.

Latest reports indicate that Dr. Ludwik Rajchman, liaison officer in technical cooperation between the League of Nations and China, will return to China. Dr. Rajchman was appointed for a period of one year ending July 31st but press reports state that he will continue his work in China.

Dr. Rajchman's report, which has been published in sections in the various English language newspapers, has been the subject of favorable comment. The Japanese, who were at one time voicing much opposition in the press to League advisers, have been outwardly quiet regarding them for some months.

5. British Maneuvers.

Japanese opposition to recent British maneuvers at Shanhaikwan has had all the possibilities of a serious incident. A detachment of the Queen's Loyal Regiment in the course of their regular summer training at Shanhaikwan apparently crossed into territory considered by the Japanese as Manchoukuo and were ordered off with scant ceremony.

Conversations between Major G. T. Wards, Intelligence Officer of the Tientsin command, and Major S. Giga of the Kuantung Army, appear to have established the fact that the British are firm in their intention not to recognize Japanese Army control of the territory in question. Major Giga, acting in his concurrent capacity as special representative of the Manchoukuo Foreign Office and also as a staff officer of the Kuantung Army, sponsored letters to the British, French and Italian commanders at Shanhaikwan protesting against recent movements of foreign troops on Manchoukuo territory and demanding notification in future of movements in the area.

What at first looked like a tempest in a teapot bids fair to become more serious as it is known that the British at least have taken the matter up with their Legation and their home government. Latest reports are to the effect that they are determined to maintain their full legitimate rights to maneuver near Shanhaikwan, inside or outside the Great Wall, in spite of the Japanese. The British base their stand upon the terms of the Boxer Protocol which gives them the right to maneuver troops in the railway zone, though there may be a reasonable doubt as to the legality of their claim in going beyond Shanhaikwan.

As previously reported, the British feel that they are not going to be ordered around by the Japanese and that since the Japanese are so fond of evoking the Protocol on every occasion they will give them a little of their own medicine with British flavoring to make it more palatable. The Chinese of course are looking on with relish as the idea of one foreign power standing on the terms of the Boxer Protocol against another foreign power appeals to their sense of humor. Already wild rumors have appeared that Japanese soldiers have fired upon British troops. Such rumors are false but add zest to the situation.

Viewed from the sidelines, the actions of the Japanese would seem rather short-sighted but typical of the Kuantung Army mentality. Granted that they are anxious to secure foreign recognition of Manchoukuo and their "Made in Japan" boundary lines, it is difficult to understand their purpose in deliberately taking action which will certainly cause friction between the Japanese and British and will very likely include trouble with the French and Italians.

6. Mission to Sikang and Tibet.

General Huang Mu-sung, Special Commissioner of the Central Government (see G-2 Report No. 8871, item 3) has at last started on his trip to Sikang and Tibet. Telegraphic reports state that he arrived at Kia Li (about 170 miles east of Lhassa) on July 26th and continued his journey westward the next day. His present plans are to reach Lhassa about the end of August.

According to an announcement of August 3rd, the Nanking Government intends to establish a political council in Sikang. This decision was reached at a joint meeting of representatives of the General Staff, the Ministry of the Interior, and the Commission for Mongolian and Tibetan Affairs. Details of this plan have not been published to date but it is believed that its provision will follow the general scheme of the autonomy provisions for Inner Mongolia. This declaration of the National Government is in line with its policy to establish closer connections and control over the Northwest and is said to have been made upon the recommendations of General Huang Mu-sung.

General Huang has had varied experiences as an investigator and special emissary for Nanking and so far has given satisfaction. His present mission of "trouble shooting" in Tibet, however, is believed to be the most difficult task he has yet undertaken. Certain Chinese sources estimate that he plans to make Sikang his headquarters and only venture into Tibet should conditions look favorable at a later date. On the other hand reliable information from official circles indicates that Huang will push on at once as he himself announces.

There is no question but that from the standpoint of the National Government the present situation in Tibet offers a favorable opportunity for political realignments. So far as is known, no successor has been selected for the new reincarnation of the Dali Lama. This fact may make Huang's task easier. His biggest obstacles will be the traditional love of independent action held by the Tibetans, the desires of the group of elders now governing the territory, and the questionable value of Nanking's proposals in the eyes of the Tibetans. In the meantime while Huang toils, the Panchan Lama watches the prey, hoping for a chance to return to Lhassa under the protection of Nanking and thus end his ten year exile.

7. British Railway Activities.

Canton-Kowloon Railway.

Press despatches indicate that at a recent conference held in Hongkong a revised Canton-Kowloon Railway agreement was concluded by Chinese and British representatives. It is understood that the new agreement includes an arrangement whereby the distribution of receipts for through traffic will be Chinese 72% and British 28%, to be enforced from October 1, 1934.

Canton-Hankow Railway.

After an inspection tour the director of the Shiukwan-Chuchow section of the above line announces that much progress is being made in the construction of the unfinished section of the railway and that there is a prospect that the line will be completed and through traffic between Canton and the Yangtze will commence before the end of 1936. The uncompleted section is over 400 kilometers long and up to date 51 kilometers have been built, that is, as far as Lokchang. The director states that over 30,000 men are now engaged in building the line at various points and that up to last June £ 949,609 worth of equipment had been purchased from Great Britain through the Chinese Purchasing Commission in London for the railway.

Digest reports will be submitted later on the above two items.

W. S. Drysdale
W. S. Drysdale
Lieutenant-Colonel, Infantry
Military Attache

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COMMENTS ON CURRENT EVENTS

August 10 - 16, 1934

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    - Results of Dairen Conference
    - Customs Houses
    - League Delegates
2. Sino-Italian Co-operation
3. Situation in North China
4. British Industrial Mission

(Attention is invited to the fact that this report covers a period of only one week. This was occasioned by the change in sailing dates of American mail ships. While these Comments do not cover their usual wide range they are nevertheless considered of sufficient interest to forward.)

1. THE NANKING GOVERNMENT

The Kuling Conference.

Following the conversations at Mokanshan between General Huang Fu, Chairman of the Peiping Branch Political Council, Yin Tung, the diplomat-Managing Director of the Peiping-Liaoning Railway, and Tang Yu-jen, Vice-Minister of Foreign Affairs, a very optimistic statement was issued by Wang Ching-wei, Chairman of the Executive Yuan and concurrent Foreign Minister (see G-2 Report No. 8893). Apparently Yin Tung's trip to Dairen and the attitude of the Central Government provided a working basis on which Huang Fu was willing to discuss details for his return to North China, for on August 9th he made plans to leave the mountain resort where he has been for some weeks "regaining his health".

General Huang and Mr. Yin Tung left Mokanshan on August 9th and motored to Nanking where they were met by and dined with Tang Yu-jen, after which Huang Fu boarded the warship "Chung Shan". The vessel arrived at Kiukiang on August 10th and General Huang proceeded to Kuling to see Chiang Kai-shek. While in Nanking Huang gave out a statement to the press almost identical with the one which he released upon his arrival in the South some months ago. He stated that "the situation in North China would become more and more stable if there is not any accident, either internal or external". He again emphasized his regret that many persons were very pessimistic toward North China, resulting in a "psychological desertion" of that territory which was harmful to the whole nation.

The day before the departure of General Huang Fu for Kuling, another party of distinguished persons sailed on the cruiser "Hai Yang" for the same destination. This was headed by Wang Ching-wei and included among others Tseng Chung-ming, Vice-Minister of Railways, and Admiral Chen Shao-kuan, Minister of the Navy. Other important personages who are at Kuling include Dr. H. H. Kung, Minister of Finance; General Hsiung Shih-hui, Chairman of Kiangsi; General Chang Ch'un, Chairman of Hupeh; and General Huang Shao-hsiung, Minister of the Interior and recent special envoy to Canton.

From the personnel assembled at the famous summer resort it can be easily seen that the conferences there will have an important bearing upon the future of China. While domestic questions will no doubt be discussed it is believed that a matter of paramount importance will be the various points of Sino-Japanese relations in North China. Whatever decisions are made, Chiang has picked a good time for them as in addition to the political celebrities now at Kuling there are congregated near there for summer training the most representative collection of high ranking military officers that have ever been gathered in the name of the Nanking Government.

It will be remembered that the Generalissimo has assembled high commanders from all over China for summer training in a regimental formation of which he is the head and General Shang Chen (32nd Army - headquarters, Peiping) is second in command. The first attempt of its kind in China, Chiang has created the means of spreading loyalty to himself and the Nanking Government throughout a good part of the Chinese Army. It will be interesting to see what uses he will make of his opportunity.

Latest available information concerning the conferences at Kuling comes in the shape of an announcement by Tseng Chung-ming, Vice-Minister of Railways, who, acting as spokesman for Wang Ching-wei, told the press that all meetings were merely in the nature of informal conversations and that no decisions whatsoever had been reached. This office is inclined to doubt the latter statement but believes it was made in typical Chinese style as avoiding a direct statement for fear of opposition, and that any decisions reached at Kuling will be evidenced gradually in an indirect manner. For example, when Huang Fu returns to North China it will be evident that Yin Tung's trip to Dairen was not in vain and that the Central Government's approval of certain points tentatively agreed upon at Dairen was obtained.

Results of Dairen Conference.

From reliable confidential sources it is learned that Huang Fu's decision to return to Peiping (a decision now definitely announced) was largely influenced by the outcome of the conference at Dairen which dealt with the question of the administration of the so called demilitarized zone. During the conference there was practical agreement on the following points:

a) Replacement of "Manchoukuo" troops now guarding the pass through the Great Wall at Malanyu, near which the Manchu tombs are situated.

b) Control of Korean and Japanese subjects in the zone by means of permits to be issued by the Japanese authorities. These permits will in a measure guarantee the good character of the holders.

c) Removal of the Japanese troops from the area south of the Wall when barracks are prepared for these troops north of the Wall. These barracks are now being constructed.

Questions that remain to be settled include (a) the liquidation of certain "renegade" Chinese troops in Chahar, numbering about 2,000 under Li Shou-sin, and (b) the number and arms of Chinese police to be permitted in the demilitarized zone.

The concessions made by the Japanese are slight but, together with appeals from Chiang Kai-shek and Wang Ching-wei, they have apparently assured Huang Fu that his return to Peiping may improve Sino-Japanese relations.

The leniency of the Japanese would seem to arise from the belief that minor concessions will so improve the feelings of the Chinese that subsequent agreement on more important questions will be facilitated. These more important questions no doubt include a considerable increase of Japanese economic interests (with the incidental "control" that such interests justify) in the North China area. The Soviet Military Attache, who appears to be keenly interested in these developments, infers that those interests will include railway or other transportation facilities for which Japanese money will be used and which will be the spear-head of the Japanese economic penetration into North China. The Military Attache concurs in this belief.

Customs Houses.

Mr. Chang Yung-nien, representing the Central Government Customs authorities in Peiping (see Report No. 8882, item 5), is reliably reported to have concluded arrangements to open Customs stations at Kupehkow and Shanhaikwan. The same report states that four others, and possibly more, stations will be opened as follows: Hsifenkow, Lengkow, Chiehlingkow and Yiyuankow. The purpose of establishing these stations is said to be to prevent smuggling but no considerable revenue is expected from this source.

League Delegates.

On August 11th the National Government published a mandate giving the names of the Chinese delegates to the Fifteenth Assembly of the League of Nations to be opened on September 10th at Geneva. The appointees are as follows:

Quo Tai-chi, Chinese Minister to Great Britain
Lo Chung-yi, " " " Denmark
Kin Wen-ssu, " " " The Netherlands.

The appointment of these representatives lends color to the gossip in Chinese political circles to the effect that Dr. W. W. Yen, Chinese Ambassador to Moscow, and Dr. V. K. Wellington Koo, Chinese Minister to France, will not return to their posts in Europe. Both these well known diplomats are now on furlough in China but neither has given any intimation as to how long the furlough will be. Certain Chinese sources believe that Japan will bring pressure upon Nanking to prevent Yen and

Koo from taking up their posts again in Europe - Yen because of his part in the Sino-Russian rapprochement and Koo because of his work as Chief Assessor on the Lytton Commission.

No confirmation of this information is available but the fact that the Japanese class Yen and Koo as "Public Enemies" is well known. Both have done efficient service for China and have caused many embarrassing moments for the Japanese. There is considerable feeling to the effect that the Japanese have a set policy to eliminate the American and European or pro-League element from Chinese affairs. Certainly T. V. Soong and Lo Wen-kan were of this faction and have temporarily at least stepped from the center of the stage. Should Yen and Koo follow, it will be strong evidence to substantiate the opinion of those who believe that Japan has spoken in no uncertain terms.

2. Sino-Italian Co-operation.

In view of recent evidences of Italian desires for closer relations with China, which has been mentioned on several occasions, it is significant that on August 8th Premier Mussolini personally received the Chinese Aeronautical Mission headed by General Mao Pang-ch'u (see G-2 Report No. 8882, item 8), head of the Hangchow Aviation School. On August 9th the members of the mission were shown the Montecello Airfield and its experimental workshops.

Another point of interest is a Reuter's telegram from Rome dated August 8th to the effect that Liu Wen-tao, Chinese Minister to Italy, has been urgently summoned back to China to discuss a Sino-Italian "scheme of co-operation". This fact may have a bearing upon recent activities of Colonel Mario de Bernardi and his reported aviation dealings with the Central Government (see Report No. 8888).

3. Situation in North China.

The political situation in North China remains outwardly quiescent pending the conclusion of the Kuling conferences. In Shantung, General Han Fu-chu has made a trip to Tsingtao for the purpose of interesting T. V. Soong in reconstruction work in that province. As Huang Fu stated, there has been a general lack of interest in investing public funds in North China, and Han, well aware of Soong's progressive tendencies, is trying to break the charm and to get the National Economic Council interested in his province. This accounts (in part at least) for the recent friendly accord between Han Fu-chu and Chiang Kai-shek. It is reported that Han has returned the arsenals in his province to Central Government control and has in other ways shown his sympathy for Chiang Kai-shek.

The Panchan Lama has left Peiping by special train, arriving in Kalgan on August 11th. After a stay there of a few hours, the train departed for Kweihwa, Suiyuan, arriving at that place on August 12th. While his secretary has announced tentative plans to visit various Mongol Banners, the exact itinerary of His Holiness is not known. It is thought he may visit Pailingmiao, the seat of the Mongolian Autonomy Council, where he maintains an office and a private radio station (see G-2 Report No. 8881).

Just at the time when the great and near-great were gathering at Kuling, Colonel Shibayama, Military Attache of the Japanese Legation in Peiping, saw fit to break into print again with a statement to the effect that another informal discussion on the various impending questions concerning the demilitarized zone would soon take place in North China between Yin Tung, the versatile Managing-Director of the Pei-Ning Railway, and Japanese officials. Shibayama also stated that there were no obstacles in the way of the retrocession of the Great Wall pass near Malanyu and that the delay was due to the inclement weather and bad roads which prevented him and Mr. Yin Ju-keng, Special Administrator of the Kihsien-Miyun area, from visiting Malanyu to effect the retrocession.

4. British Industrial Mission.

According to European press despatches the Federation of British Industries will send a mission to Manchoukuo in the near future. It is understood that this mission will be purely a commercial one since the Federation represents private industrial interests.

The Havas report states that while the British Government will adhere to the resolution passed by the League of Nations on the non-recognition of Manchoukuo, the mission will be assisted in its efforts by the British Government and by British consular authorities in the Far East. Some interesting phases of diplomacy may be anticipated.

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COMMENTS ON CURRENT EVENTS

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1. The National Government.

Kuling Conferences.

No immediate results of the Kuling conferences are as yet evident. It is the general belief, however, that some compromise has been effected, as General Huang Fu has gone from Kuling to Nanking. According to governmental sources, Huang Fu is stated to be stopping in Nanking for a few days after which he will return to Peiping. Mr. Yin Tung, the Managing Director of the Peining Railway, stated on his arrival in Peiping on August 29th that the General would likely come North about September 10th.

Meanwhile all officials in Peiping are awaiting Huang's return and office work is at a standstill. Even Ho Ying-chin, Minister of War, is holding some matters and is delaying discussions with a delegation from the Mongolian Autonomy Council pending the arrival of General Huang.

Fifth Plenary Session.

An official notification has been issued by the Standing Committee of the Central Executive Committee announcing that the Fifth Plenary Session of the Kuomintang will be held in November of this year. The notification was addressed to all the Party organs throughout the country, inviting them to send delegates to attend the Congress and participate in its deliberations. The principal items on the agenda of the Congress as listed in the notification will be:

1. The question of summoning of the People's Congress.
2. The question of revision of the regulations of the Party.
3. The question of promotion of Party affairs.
4. The question of determination and adoption of an administrative policy.

Kwangtung Advisory Council.

The Provincial Government of Kwangtung has recently formed a Provincial Advisory Council for the purpose of rendering advice on various matters of local political interest.

General Chan Chi-tang, Commander-in-Chief of the Kwangtung forces, presided at the original meeting in Canton. A roster of membership of the Council has not been published to date.

Political gossip points out that the formation of this body will not be frowned upon by the Central Government, as it may in some measure detract from the importance of the Southwest Political Council. It is known that the Nanking authorities have been searching for a plan to circumvent the influence of the latter body, and perhaps the Kwangtung Advisory Council will provide an entering wedge should they commence to disagree with the S.W.P.C.

National Defense Committee.

A National Defense Planning Committee has been instituted to meet at Kuling the latter part of August upon the call of General Chiang Kai-shek. Many prominent educators from all parts of the country have left to attend this meeting, including Dr. Hu Shih, leader of the literary renaissance movement, Dr. Chiang Mon-lin, Chancellor of the National University, and Dr. Wong Wen-hao, noted geologist.

It is first planned to hold a preliminary conference of these men with Dr. Wang Shih-chieh, Minister of Education. Among other important suggestions will be draft proposals carried by Dr. Chiang Mon-lin for reforms in the system of secondary education. These include provisions that students of primary and middle schools may be thoroughly educated and trained in the methods of national defense. This office has learned that an effort will be made to modify and make uniform the military drill and instruction in the various institutions throughout China. This year the plan was hurriedly adopted with the result that some schools did well while others accomplished nothing. The same applied to the training done in the summer.

The Government demands a certain standard before promising financial aid to the school. Many schools try to do as little as possible and still secure the allowances. An example of this was Yenching University near Peiping. Neglecting their drill throughout the year, they drilled almost day and night for three days prior to their inspection and passed with commendation. This fact speaks well for the mentality of the Yenching boys, who are outstanding among Chinese college students, but shows the need for closer regulation and supervision on the part of the Government if the results of the military training system for colleges are expected to contribute much towards national defense and compensate for the expenditure.

2. Sino-German Interests.

Mr. von Lochow, a German railway expert, arrived in Shanghai in August at the invitation of Mr. Ku Meng-yu, Chinese Minister of Railways. It appears that von Lochow is related to Dr. von Neurath, the German Minister of Foreign Affairs, and will be in a position to keep the German Government in touch with communication matters in China. He was formerly director of the large locomotive shop at Darmstadt near Frankfort.

At the present time the German expert is working on the renovation of the three workshops of the Peiping-Hankow Railway, the largest of which is at Changhsientien, the second at Hankow, and the third at Chengchow. He stated to the press that he believed his work on the Pinghan line would take about two years.

The funds necessary to put the shops in good order are expected to come from the recent loan concluded by Ku Meng-yu with Chinese banking interests. This money will also be used to repair the Yellow River bridge, which has been unsafe during flood times for some years, as well as to do other repair work on the line such as replacing defective rails and ties. According to Mr. Chow Tsoming, Managing Director of the Kincheng Banking Corporation in Peiping, which has the main financial interest in the loan, the money may be drawn for use after approval by a joint committee composed of members from the Ministry of Railways, the Peiping-Hankow Railway Administration, and the banking syndicate.

In connection with the above it is interesting to note a press despatch from Berlin under date of August 27th to the effect that the Chinese Government has contracted with a Sino-German group of engineers for the construction of some railway lines. The German interests in this group are said to be represented by the Otto Wolff Company and the Chinese by a combination of Chinese banks headed by the Bank of China.

The first project to be undertaken by this group is the construction of a railway from Nanchang to Juikin in Kiangsi, a distance of about 100 English miles. It is also reported that the same Sino-German interests have been granted an option to build the line from Nanchang to Pinghsiang which will connect with the famous collieries at that place and also with the northern section of the Canton-Hankow Railway (see G-2 Report No. 8830). This connecting line will also be approximately 100 English miles in length and will have great strategic as well as commercial value.

According to the report from Berlin, the arrangement made by the Chinese Government agrees that all construction materials and rolling stock used on these two projected lines will be German products. Since the Otto Wolff Company operates iron foundries and also plants for the manufacture of railway equipment the plan should be a most advantageous one for them. It is stated that the Nanchang-Juikin line will take about two years to build. Whether or not the arrangement and working conditions on the Nanchang-Juikin project are satisfactory to the Germans will no doubt be the deciding factor in determining the exercise of their option to build the Nanchang-Pinghsiang line.

3. Conditions in Inner Mongolia.

According to very reliable information, the Mongolian Autonomy Council is having difficulties. It will be remembered that following the establishment of the Council, discussions were held with representatives of the Nanking Government and certain agreements were made (see G-2 Report No. 8838, item 5).

The most important of these in the eyes of the Mongols were the furnishing of some fifty thousand dollars local currency each month by the National Government as expenses of the Council and the recognition of the old Mongol land boundaries which included the payment of a percentage of tax money to the Banner to which the land had originally belonged.

According to Kuo Wang of the West Sunnit Banner, who is now in Peiping, neither of the above promises of the National Government has been carried out. Kuo Wang was sent from Mongolia by Te Wang, the Secretary of the Autonomy Council, to interview General Ho Ying-chin, the Minister of War and nominally the National Government representative appointed as adviser to the Mongolian Autonomy Council. Kuo Wang stated that Ho spoke very fine words but as yet had backed them up with no money. As previously reported, there is no doubt but that the tax money promised to the Mongol Banners was to be taken from the revenues of the provinces of Chahar and Suiyuan. Naturally the governors of these areas protested to Nanking and the usual delays have prevented any decision being taken. The Chahar Governor has been pleading for more money, holding up the Japanese specter. The Suiyuan Governor made a special trip to Nanking.

At the present time General Ho Ying-chin is trying to delay the matter further and has asked Kuo Wang to wait until the return of General Huang Fu to the North. Kuo Wang on the other hand is hinting that he will leave at once, in order to try and hasten the matter. The Mongol delegates expressed themselves very emphatically to a member of this office to the effect that if China would not help them out, they would be forced to look elsewhere.

Apparently the situation between the Mongols and the authorities of Chahar is not impossible of solution, but in Suiyuan the matter is becoming increasingly difficult. It seems that the bone of contention here is the opium traffic from the west. The camel caravans come through Mongolia to escape the Chinese bandits inside the Great Wall and pass through Inner Mongolia into Suiyuan. All the tax revenue is collected by the Suiyuan authorities. The Mongols claim that as the opium passes through their territory under their protection they should be entitled to some of the tax collected.

Not only do the troops of Fu Tso-yi prevent any of this money from falling into the hands of the Mongolian Autonomy Council but the Mongols claim that the Governor himself is actively opposing any efforts to unite Mongolia. Kuo Wang states that Fu presents automobiles and other costly gifts to the different Banner leaders in order to placate them, at the same time preaching the advantages of playing the game with him instead of with the Mongolian Autonomy Council. An automobile in the hand is worth two in the bush promised through the Autonomy Council, particularly since the National Government is not fulfilling its bargain in the way of financial support to that body.

While of course the Mongol delegates will paint as gloomy a picture as possible, it is believed that the fact that the Nanking Government has been slow to follow up its promises with hard cash is no proof that the authorities are going back on their word in this matter. Huang Fu is in touch with the situation and is alive to its importance. Naturally the Mongols are impatient and the provincial governments of Chahar and Suiyuan are reticent as regards giving up the funds. Then too, other important matters vis-a-vis Japan have been occupying the minds of the leaders in Nanking recently. It is to be hoped that the National Government will realize the importance of the situation in Mongolia and lend every effort to strengthening the Autonomy Council and thus bind the Mongols more closely to China. Should they fail in this matter the results will be a severe blow to a united China.

Difficulties with the National Government, however, are not the only ones being experienced by the Mongols. The Japanese, following out their policy of extending influence into Mongolia, have established a society in Dolonnor for the purpose of promoting friendship between the people of Manchoukuo and the Mongols. Of course this bureau will endeavor to further Japanese political intrigue among the Mongols as well as try to improve commercial relations with them, despite the statement of the Manchoukuo authorities to the contrary (see G-2 Report No. 8871, item 6). There is every reason to expect that the Japanese will make an effort to divert as much Mongol trade as possible into Manchoukuo through Dolonnor and prevent it from entering China through Kalgan.

In the last five months the Japanese population of Dolonnor has increased from less than ten to some thirty persons, most of whom are connected with the "friendship society" just mentioned. The roads from Jehol City northward towards Dolonnor are being gradually repaired but with no particular haste nor apparent military supervision. These facts confirm the belief of this office that there is no immediate prospect of Japanese action in Inner Mongolia other than of a political and commercial nature.

It is true that within the last month several military trucks with a few Manchoukuo soldiers and two Japanese officers have been as far west as Te Wang's Palace. The Japanese have tried to establish a radio station at that place but the Mongols have successfully resisted their efforts up to the present time. It is believed that the Japanese are anxious to win the good will of the Mongolian princes and that they will not commit any overt acts now which might jeopardize their position. They are counting on being able to convince the Banner chiefs that Manchoukuo can offer them more than can the Nanking Government.

It is still the belief of this office that the Mongols would rather retain their autonomous status under the loose control of China than make any alliance with Manchoukuo since they know that any such alliance would result in the stern control of the Japanese Army and the end of their autonomy aims. This fact was brought very forcibly to their minds recently by the actions of the Japanese in the newly made Hsingan Province of Manchoukuo. After being subjected to much propaganda as to the amount of autonomy the Mongols of that territory were to have under the enlightened administration of Manchoukuo, the Mongol leaders of Hsingan soon realized themselves to be but figure-heads under Japanese direction. The easy going, pastoral Mongols found themselves being organized and herded about in a way quite unlike their habitual manner of living. They were forced to turn out for military training far more strenuous than any they had ever seen and were required to pay a tax for the privilege of grazing their herds. Mongols from Manchuria have made their way into Inner Mongolia and are now represented on the Mongolian Autonomy Council. While this actually amounts to a paper representation, for they cannot return to their Banners from Pailingmiao, still their voice in the Council and the reports from other Mongols who have come from the Hsingan area will all help to retard ideas of the unmitigated blessings which are held out by the Japanese to the Mongols as the reward for joining hands with Manchoukuo.

According to Kuo Wang, who is now in Peiping, the Autonomy Council has decided to establish itself permanently at a spot called Naranobo, about three miles north of the temple-mass of Pailingmiao. Here it is planned to build permanent structures of some nature to house the offices and personnel of the new government. There will also be yurts or buildings of some kind to serve as living quarters for the various princes and members of the Council and their entourage who may come in from the plains for the meetings. Kuo Wang stated that as soon as the National Government paid the monthly allowance promised, the construction at Naranobo would commence.

4. British Industrial Mission.

Considerable interest is being displayed in China over the trade mission to Manchoukuo which is stated to have been inspired by the Federation of British Industries. Despatches from England indicate that great stress is laid upon the fact that this mission will be void of political significance but it will be hard to convince the Chinese that such is the case.

The personnel of the mission is given below:

Lord Barnby, C.M.G., M.V.O., C.B.E. - Director of Lloyd's Bank, the Commercial Union Assurance Company and the Central Electricity Board. Is a partner in a firm of wool merchants and was controller of wool supplies under the War Office during the World War.

Sir Charles Seligman.

Mr. Guy Locock - reported to have been interested in cultivating friendship between Great Britain and Japan.

Mr. Julian Piggott - represents the British Iron and Steel Federation. His father, the late Colonel F.S.G. Piggott, was at one time adviser to Prince Ito of Japan and is said to have given valuable assistance to him in drafting the Japanese Constitution. His brother is President of the Japan Society of London.

The Japanese as well as the Chinese consider that the British mission is bound to have more in view than good will and commercial relations, and certainly the former hope that such may be the case. They see in it the first evidences that Great Britain may be reconsidering her attitude regarding recognition of Manchoukuo.

Japanese press reports indicate that they are pleased with the composition of the British Mission. Lord Barnby and Sir Charles Seligman are viewed as having liberal views. Mr. Lecock is believed to be still interested in cultivating Japanese-British friendship, and Mr. Piggott is hailed with enthusiasm. It seems that he was born in Japan and is particularly interested in things Japanese.

In addition to investigating Manchoukuo it is announced that the mission will also pay a short visit of courtesy to Japan for the purpose of establishing friendly relations with representative Japanese commercial organizations. There is no doubt that the Japanese are looking forward to the arrival of their British guests. It is quite possible that the recent rumors of closer co-operation between Japan and Great Britain in the Far East were started by the Japanese to pave the way for the coming of the British Mission, which the Japanese hope will mean the beginning of a new era of "better understanding regarding the Japanese position in the Far East" on the part of Great Britain. Despatches from London categorically deny any such Anglo-Japanese understanding.

5. Manchoukuo and Soviet Russia.

The Russian bear and the Japanese wolf in Manchoukuo sheep's clothing are still engaged in one of the most amazing catch as catch can verbal contests that the world of diplomacy has ever seen. Each one continues to sling mud and epithets at the other in the most unheard of manner. Following the Miyazaki case (see G-2 Report No. 8882, item 10) when the official Tass agency published reports of a Japanese colonel trying to steal official papers from the Soviet Consulate at Taheiho, the Kuantung Army said suprisingly little in return. Knowing the usual methods of the Japanese, it seems quite likely that the Soviet version of the matter was reasonably correct. However that may be, relations between the two nations have made no turn for the better. Sometimes it seems that they could not take a turn for the worse without bringing a declaration of war. The raison d'etre for this peculiar condition is believed to be first that neither country wants war at this time and secondly, that in dealing with the Japanese the Russians are utilizing their best Asiatic heritage and meeting the Asiatic in a truly Asiatic manner.

After continued bickering, bargaining, delay and excuse, the negotiations for the sale of the Chinese Eastern Railway have been broken off. Apparently a price could not be agreed upon. The Japanese, through Mr. Hirota, their Foreign Minister, have been offering their "assistance" in the discussions but apparently this has not been appreciated, at least by the Russians. Just when it looked as though a middle price had been reached the Japanese accused the Russians of bad faith in giving publicity to the terms. The Manchoukuo Vice-Minister of Foreign Affairs, Mr. Ohashi (Japanese), has left Tokyo in a huff.

The Japanese then threatened to publish the complete negotiations "for the purpose of showing the justifiable and compromising attitude of Manchoukuo", but two weeks have elapsed since this threat and no disclosures of this nature have been seen. Since that time many Soviet employees of the railway have been arrested despite vigorous protests on the part of the Soviet authorities. The last protest was made on August 22nd by Ambassador Yureneff referring to the "lawless and causeless arrest" of Soviet citizens most of whom are workers in the General Manager's office.

Both the Tokyo Foreign Office and the Japanese-influenced Foreign Office of Manchoukuo have issued statements refuting the allegations of Russia and justifying the actions of the Manchoukuo authorities. Probably the most important statement of all was contained in a declaration by the Manchoukuo authorities which is quoted below:

> "Should a break-down take place, the 'Manchoukuo' government will regard the N.M.R. (sic) as a commercial organization under her jurisdiction, and with that in view, will supervise and bring all matters related to the N.M.R. to a speedy settlement."

This view was given out before the negotiations broke off. It will be worthy of careful attention to see just what measures the Manchoukuo authorities will take. Virtually their threat is that if the negotiations were not brought to a satisfactory conclusion, they would take the matter into their own hands and do as they see fit. The Russians immediately called their bluff and the Far East is waiting to see what will come of it. A typical Oriental loophole was left, however, when Mr. Ohashi stated that he might return to Tokyo "if the Soviet authorities show sincerity".

As noted before, the diplomatic passages between Russia and Japan are unique to say the least and make up in action what they lack in finesse. In any other part of the world and likely between any other nations war might break out over night. In this case however there still seems to be lacking the will for war at this time by either party. Strange as it may seem, conditions in Harbin seem much less strained than a year ago, and there are no indications that the populace is much exercised despite the fact that foreign language press reports are startling. A qualified observer who came down from Harbin last week reported that conditions there were quieter than they had been for some time.

Just when newspaper reports of strained relations between Russia and Japan were at their height, Colonel Shibayama, the Japanese Military Attache in Peiping, gave out an interview to the press in which he admitted that there was unusual tension in Manchuria but that it was entirely due to the temporary breakdown of negotiations for the sale of the Chinese Eastern Railway. He intimated that it was likely that the discussions would be resumed and that the present breach should not be considered final.

6. Sino-Japanese Relations in North China.

Sino-Japanese discussions of the past few months are at last bearing fruit. The first actual evidence was the formal opening of the Customs station at Kupehkow, one of the most important passes in the Great Wall to the north of Peiping. This was followed on August 24th by the opening of the station at Yiyuankow, a pass on the northern border of the demilitarized zone some twenty miles northwest of Shanhaikwan.

According to reports from Chinese sources, the special representative, Mr. Chang Tung-nien, is now making arrangements for the opening of other stations at Hsifengkow, Lengkow and Chiehlingkow. These stations as well as the two named above will all be under the Tientsin Customs area with Mr. Chang as special representative in charge and resident in Peiping.

The exact regulations under which these stations will operate are not definite but it is stated that Japanese goods will be subject to the regular Chinese Maritime Customs rates, while goods from Manchoukuo will either be admitted free or subject to a special tariff. This latter suggestion is a recent development since the Chinese have been making a point of the fact that the opening of Customs offices along the Great Wall was in reality the replacement of the stations which were withdrawn from Harbin and other locations in Manchuria.

Chinese authorities are very insistent that the opening of these stations is simply the re-establishment of the Manchurian ones and implies no recognition of Manchoukuo. While this of course is debatable it is quite evident that while the Chinese Government refuses to recognize Manchoukuo they have been forced to realize that a condition exists wherein they cannot open Customs offices in Manchuria and so they do the next best thing - they open them where they can. In this manner they will be in a position to keep more or less of a check on the goods coming into China whereas since the occupation of Manchuria they have had no way of doing this. It will be interesting to see whether or not the vehicles of Japanese transportation companies are inspected at the passes and just what the procedure will be.

As regards questions concerning the demilitarized zone there has been a conference in Peiping between Colonel Shibayama, the Japanese Military Attache, Mr. Yin Ju-keng, the Administrative Inspector of the Chihsien-Miyun area, and Mr. Tao Shang-ming, the Administrative Inspector of the Luantung area. The best information available indicates that matters are proceeding satisfactorily. The two Chinese participants left Peiping for Tientsin on August 24th and Colonel Shibayama is stated to be leaving for Hsinking about the end of the month to make a report to the authorities of the Kuantung Army.

It should be noted that the Kuantung Army and not the Japanese diplomatic agencies are in charge of these important Sino-Japanese negotiations. On the side of the Chinese it is a special representative for this or that or the much travelled Mr. Yin Tung of the Peining Railway staff. In this manner face is saved and the matter is outwardly classed as a local affair.

In the light of the points just discussed it is interesting to consider the rumors current when Yin Tung went to Dairen last June to the effect that the Tangku Truce was to be abrogated. Naturally the Chinese are anxious that this be done and there is ample evidence that they are carrying out their part of the agreement to the best of their ability. It is believed that they hope to fulfil their promises as soon as possible, hoping that the Japanese will carry out theirs promptly and that the matter may be settled before the Fifth Plenary Session of the Kuomintang next November.

The Japanese on the other hand are in no hurry to give up their favorable position, according to remarks made to a member of this office by Colonel Shibayama. While Japan may give up certain aspects of the threat which she has held over North China since the conclusion of the Tangku Truce, it is the belief of this office that she will not go beyond a certain point. This view is confirmed by a statement made last week by General Okamura, Vice-Chief of Staff of the Kuantung Army, to the effect that while "they might give up some of the smaller passes through the Great Wall, the Kuantung Army was determined to retain control of four of them". These are estimated to be Kupehkow, Malanyu, Hsifengkow and Shanhaikwan.

While speaking of the Tangku Truce and General Okamura, one is reminded of the report obtained by this office from "confidential" Japanese sources in June 1933 regarding Okamura's statements about certain supposedly verbal agreements between the Chinese and Japanese at that time (see G-2 Report No. 8601, item 1). These verbal agreements were denied by both parties but now in the light of the intervening fourteen months it is worth while to consider the rumored points and happenings concerning them:

"1. Central Government troops are to be withdrawn from North China." This was carried out by the main units within four months from the signing of the Truce, save for military police and some special units. In addition to this, practically all the former Fengtien troops have been moved to the vicinity of Hankow and Chang Hsueh-liang has established his headquarters at Wuchang, on the southern side of the Yangtze River. This was rumored to be one of the Japanese demands also, but not included in the verbal agreements. Nevertheless it must be noted that it has been done and that Chang is nominally south of the river, though many of his troops are on the Hankow side.

"2. Railway communication is to be restored to Shanhaikwan." Not only has this been done but through traffic was opened between Peiping and Mukden on July 1st. A Chinese train runs to Mukden and a Japanese one to Peiping on alternate days. This is more than the rumor demanded.

"3. Trade relations are to be established and commercial traffic is to be resumed between North China and Manchoukuo through the Great Wall passes." Goods may now move through Shanhaikwan by train and from August 22nd overland through Kupehkow and Yiyuankow. As already mentioned, the other passes at Hsifengkow, Lengkow and Chiehlingkow are expected to open any day.

"4. Kuomintang activities are to be suppressed in North China." This appears to have been done at least outwardly. Certainly there are no anti-Japanese signs or slogans seen in the cities and towns of North China and even in the South the anti-Japanese activities seem quiescent.

"5. The Japanese are to refrain from encouraging any separatist movement in North China and are to support Huang Fu". As reported over a year ago this seems to be the policy of Japan and there is no evidence that a change is to be anticipated in the near future.

It is believed that though smarting over the loss of Manchuria and the Japanese treatment of North China, the majority of the official and intellectual leaders in China are resigned to facts as they are. They realize that China is in no condition to oppose Japan at this time and that her only chance is to delay further Japanese aggression in the hope that in time China will become strong enough to take some definite action——though no one seems to know just what shape that action will take——or that world conditions and the ever hopeful possibility of a Russo-Japanese war may help do for China what she is unable at the present time to do for herself.

7. Control in Manchuria.

The old Chinese proverb to the effect that one horse cannot have two heads is still as true as ever but the two heads should really be changed to three if we are to make any comment upon what is going on in Manchuria. One paper in China has likened governmental problems there to a three-ringed circus and they are not far wrong except that most circus performers appear to be enjoying themselves, which does not seem to be the case of the officials engaged in the three-cornered problem of trying to take orders from three sources.

The difficulty lies in the fact that thrown into the breach following the occupation of Manchuria were the agencies of the Kuantung Army for the War Department, the South Manchuria Railway for the Interior Department, and lastly the Kuantung Government of the Leased Territory for the Ministry of Overseas Affairs. According to news from Manchoukuo it seems that the Railway Administration objects strenuously to being run by the Army. The Army has put forward its plan for reorganizing Manchuria as has the Ministry of Overseas Affairs. A conference held recently in Tokyo has evolved no solution as yet. Reliable information from governmental centers in the new Empire indicates that as time goes on the crossing of administrative authority is becoming increasingly greater and no one can see a way out of the maze.

From a strategic point of view it would seem evident that the Japanese Army should have considerable say in the policies adopted for Manchoukuo. It is certain that they will bend every effort to that end. Whether or not they have the power to control completely Manchuria and the vision to see the problem in its larger aspects remains to be seen.

8. British Interest in Szechwan.

According to reports from Shanghai the development of the province of Szechwan through a Sino-British finance corporation is in prospect. This business enterprise will be organized in Chungking by the Chu Hsing Cheng Bank, known as the Young Brothers Bank, and a London financial syndicate said to be connected with the Yangtze Finance Corporation.

The terms of the agrement given out by the Shanghai office of the Young Brothers Bank state that the new firm will be known as the Lien Yi Finance Corporation and will be capitalized at $100,000 Mexican, fifty-one per cent. of which will be taken by the Young Brothers Bank and the remaining by the British interests. The corporation will be registered with the Chinese Government and will be governed by Chinese regulations for like companies.

The Lien Yi Finance Corporation will be placed under the control of a board of directors of five, three to be appointed by the Young Brothers Bank and two by the British partner. The chairman of the board will be a Chinese elected by the bank, who will have permanent resident office in Chungking. The general manager of the corporation will also be a Chinese.

All industries the promotion of which has either been ordered by the government or approved by various public bodies and call for financial assistance from outside sources will be within the scope of the Lien Yi Finance Corporation who will, on behalf of the British financial syndicate, organize parties to make an investigation with a view to assuring the soundness of the projects outlined. Following such investigation, the British financial syndicate will determine its capital investment into the industrial projects as drawn up and in case of need may also supply technical personnel.

The finance corporation is to handle the capital to be invested into industrial enterprises in Szechwan by the British financial syndicate which will be of two kinds: loans to the corporation against which the corporation is to issue receipts to the syndicate; the corporation to make long-term and short-term loans to Chinese concerns, the long-term loans to be redeemable for a period not longer than 30 years and not shorter than 10 years, interest rate of the long-term loans not to exceed 5 per cent. per annum.

Immediately upon the publication of information about the Sino-British corporation, the Nippon Dempo Japanese press reports carried remarks to the effect that Szechwan was being menaced by British and Soviet influence. They claim that the loan is the result of negotiations by General Liu Hsiang with the British due to the fact that the latter are anxious to extend their influence into Szechwan because of their interests in Tibet. The Japanese press releases also state that there has been an increase in communist activities in Szechwan and that Chiang Kai-shek has decided to discontinue anti-communist activities in Kiangsi and to send large forces to Szechwan.

So far there has been no confirmation of the Japanese allegations and they are believed to be for the purpose of propaganda to show that other nations than Japan have designs upon China. There are no indications that National Government troops will be diverted into Szechwan and as far as Liu Hsiang is concerned, the latest reports from the South indicate that he will renew his bandit suppression activities.

Various groups of British returned students and natives of Szechwan resident in Nanking have made protests against what they call a plan "to sell the mines in Szechwan for a loan from British imperialists". It will be noted that while no specific mention is made of mines in the agreement yet its terms are so broad that the new Sino-British corporation would have a wide scope and could easily include mining operations among its activities.

In addition to the British venture mentioned above, articles in the vernacular and English language newspapers have published what purports to be a draft contract between a representative of the Directorate General of Szechwan

Rehabilitation and a Mr. Komiski, representing a French industrial organization, for the construction of a railway from Chungking to Chengtu (300 miles). The reports point out that the contracting parties signed the contract on August 4th at Chengtu and the draft agreement is to become a formal contract when it is approved by the National Government.

The agreement stipulates that a survey of the projected line and an appraisal of all details is to be started within four months after the project has been approved by the National Government; that construction is to be completed three and one-half years after actual inauguration of work; and that the Directorate General of Szechwan Rehabilitation incurs responsibility for not more than $300,000,000, standard silver currency.

Superficially, the contract as outlined grants no concession to French interests other than that incurred in the construction of this railway. Actually, however, the consummation of this railway agreement, if true, merits interest by virtue of the proximity of Szechwan to the French sphere of interest in Yunnan Province; the apparent desire of the French to extend their influence in Szechwan, and the not inconsiderable French interests in Szechwan.

S. V. Constant.
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Major, Cavalry
Assistant Military Attache

No. 8908

1st Ind.

WSD:elh

Office of the Military Attache, American Legation, Peiping, China, August 31, 1934 - To: Chief, Military Intelligence Division, Washington, D.C.

Approved.

W. S. Drysdale
W. S. Drysdale
Lieutenant-Colonel, Infantry
Military Attache

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COMMENTS ON CURRENT EVENTS.

September 1—14, 1934

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1. The National Government
    - Postal Conference
    - Minister to Italy Returns
    - Confucian Celebrations
    - National Defense Committee
2. Europe - China Flight
3. Sikang and Tibet
4. Belgian Envoy
5. Japanese Good Will Flight
6. Chinese Military Missions
7. Chinese Railways
8. Sino-Japanese Relations
9. Mongolian Affairs

1. THE NATIONAL GOVERNMENT

Postal Conference.

The National Postal Conference opened in Nanking on September 1st with some sixty delegates present. Half of this number were from the Ministry of Communications and the remainder from various postal offices and postal savings banks. It is reported that nearly two hundred bills have been received by the Ministry of Communications for modification or improvement of the postal service in China. These will be brought up for discussion and recommendations by the delegates.

Of all the government departments in China, with the possible exception of the Customs, the Post Office Department, established by Imperial decree in 1896, has been outstanding for efficiency and service to the public. In peace or war, pestilence or famine, the familiar green-coated postman carries on and has been granted immunity from bandits in all sections under a sort of unwritten law.

Minister to Italy Returns.

Mr. Liu Wen-tao, Chinese Minister to Italy, arrived in Shanghai on September 4th. He is stated to be returning to China in response to telegraphic orders in order to discuss current problems with Nanking authorities. It is thought likely that some important Sino-Italian matters reference aviation will be discussed (see G-2 Report No. 8895, item 2). Interviewed by the press, Mr. Liu stated that Premier Mussolini was greatly interested in China and was well versed in social, economic and political conditions there.

Confucian Celebrations.

August 27th, the birthday of Confucius, was celebrated officially throughout China as well as being observed by many private organizations and societies. Government delegates were sent to Kufow (Ch'u Fu) in Shantung, the birthplace, home and burial place of the Sage and appropriate ceremonies held. In line with the "New Life Movement" there is an evident effort on the part of the National Government to interest the people in the domestic matters affecting themselves primarily and to give less thought to China's foreign relations in general and Sino-Japanese relations in particular. The interest in reviving the Confucian ceremonials is believed to be related to this program.

__National Defense Committee__.

The recent decision of the Government to send some seventy military instructors to the various schools and colleges of North China is believed to be the direct result of the meeting of the National Defense Committee (see G-2 Report No. 8908, item 1). There is a growing feeling among educators that a sound system of military training in the secondary schools and colleges of the country is a necessity, and an increased willingness of faculty bodies to support this move. Of course the ever present anti-Japanese attitude of the educated people is behind this as the majority are convinced that some day China must fight Japan. The interest of Dr. Hu Shih and other intellectuals in military training will aid the Government in improving the type of training offered. It will also secure a better type of military instructor for the schools than the Ministry of Military Affairs has been willing to make available for such duty in the past.

2. EUROPE - CHINA FLIGHT

Herr Carl August Freihem von Gablenz, flying a tri-motored Junker monoplane, arrived in Canton on September 5th. The plane is designated JU 52 and its purchase is being contemplated by the Eurasia Aviation Corporation. In addition to the pilot the plane carried Herr Untucht as co-pilot, who flew in the World War and is one of the Luft-Hansa pilots on the Europe-South American run; Herr Carl Kilchoff, radio operator; and Herr Kurt Hansgen, mechanic.

The flight was started from the Templehof Aerodrome near Berlin on August 29th and the route was by way of Athens, Cairo, Baghdad, Jodhpur, Calcutta and Bangkok. The total time from Berlin to Canton was seven days and seven hours. From Canton, Gablenz flew to Shanghai where he landed at the Hungjao Airdrome on the evening of September 6th. On the 11th the plane left Shanghai carrying the German Minister, Dr. Oscar Trautmann, and landed at Nanyuan Airdrome near Peiping the same day, making the flight in four hours and twenty-two minutes. In Peiping a Sino-German group arranged by the German Legation met the plane at Nanyuan.

The Junker plane is powered with Pratt and Whitney motors made in Germany and is stated to use about one hundred gallons of fuel per hour. An American aviator who examined the ship stated that while it was a well made piece of machinery there were no late developments noticed, such as variable pitch propellers, new type landing gears, wind resistance devices for landing, etc. He believes that the plane will be too expensive to operate for use in China.

3. SIKANG AND TIBET.

General Huang Mu-sung, Special Commissioner of the Central Government (see G-2 Report No. 8893, item 6) arrived at Lhassa on August 25th. The trip of about three months was not an easy one and the party suffered several casualties, two men losing their lives. The mission started from Chengtu in Szechwan and went by way of Kiating in the same province, Kanting, Changtu and Kiali in Sikang to Lhassa.

According to official announcements the reason for General Huang's special mission is to participate in sacrificial ceremonies for the late Dalai Lama at which he will preside in behalf of the National Government. He is also expected to be present at the ordination of the latest reincarnation of the soul of the Dalai, who is reported to have been discovered recently.

The actual reason for the trip, of course, is to endeavor to extend the influence of Nanking into Tibet. No reports as to how the Tibetans are receiving Huang are available as yet save his own. Traditionally independent and with a heritage of Lama rule, it is believed that the present political powers in Lhassa will not look with favor upon any proposal from the National Government to extend its authority there.

In this connection, it is reported that the Executive Yuan has received a request from the provincial authorities of Sinkiang transmitted through the Ministry of the Interior asking that an official be sent from Nanking to take charge of affairs in the Harmi and Chensi (Chenhsi) districts in the western part of the province. From reliable sources it is learned that no such request was made but that the plan originated with the Ministry and is part of the general policy of the Government to extend its influence into China's great northwest, as is the trip of General Huang Mu-sung.

4. BELGIAN ENVOY.

Baron Janssen, the special envoy of His Majesty King Leopold of the Belgians to announce to the President of the Chinese Republic the new King's accession to the throne, arrived in Shanghai on August 31st. He presented his credentials to Lin Sen on September 8th at Nanking and was treated with the same honors as though he were an ambassador. He sailed from Shanghai on September 11th.

During his stay in China, Baron Janssen took a trip over the Lunghai Railway in which Belgian capital is invested. When questioned as to whether Belgium was interested in continuing this type of work, he stated, "Of course Belgium is always ready to cooperate in the reconstruction of China. So long as there is adequate assurance of interest, Belgian capital will continue to come to China and the Belgians are proud to have their engineers invited to assist in such work".

While no doubt the mission of Baron Janssen is a diplomatic one in every sense of the word, the fact that he is one of the outstanding personalities in the Belgian business world may have some significance at a later date. It may well be that the Belgians are looking for a possible chance to assist in reconstruction work in China, should there be any considerable chance for secure investment of foreign capital under League guidance.

The Belgian envoy was shown every courtesy and consideration by the Chinese officials, really to a greater extent than the occasion demanded. Several Chinese officials have been overheard to remark that they could not see the necessity for such special consideration, unless the possibility of a further Belgian loan for railway construction had been informally discussed between Baron Janssen and the officials of the Ministry of Communications.

5. JAPANESE GOOD WILL FLIGHT.

In commemoration of the flight of the two "Asahi" planes to Europe in 1924, the "Osaka Asahi Shimbun", a Japanese newspaper, has sent two machines on a good will flight from Japan to China. The original plan was to have both planes arrive on September 5th but due to bad weather one arrived on the 6th and the other on the 10th. This is the first time that a Japanese civilian airplane has flown from Japan to Peiping. It is also the first time that a newspaper published in Japan has been received in China on the same date that it was issued, as several hundred copies of the "Asahi" were brought on the leading plane. According to the route followed, which was via Korea, the distance was estimated as some 2,600 miles from Tokyo to Peiping.

The reception accorded the fliers was as friendly as could be expected from people in general but officially it is believed that the Chinese in Peiping did more than was necessary. According to very reliable sources there is a feeling among officials here that in Huang Fu's absence Ho Chi-kung did too much for the pilots. Ho is the Secretary-General of the Peiping Political Council and acting in charge during Huang's sojourn in the South. Ho is a Japanese returned student and in addition is not so well liked by other officials because of his own personality. He is known to be extremely loyal to Huang but is considered to be a man of very mediocre ability. At the entertainment which he gave for the Japanese aviators, Ho made a speech in which he said that of all the flights of Japanese planes to China, this was the first one that had a peaceful mission. This statement was said not to have been very well received by the Japanese. All officials under Ho are known to be anticipating Huang Fu's return with considerable pleasure.

6. CHINESE MILITARY MISSIONS.

The Air Mission headed by General P. T. Mao (see G-2 Report No. 8882, item 8) has arrived in Italy and is visiting aviation activities near Brindisi.

General Yang Chieh's mission (see G-2 Report No.8847, item 2), which has been in Europe for some months, arrived in Shanghai on September 4th after visiting more than twenty countries. General Yang and his associates are stated to be proceeding to Kuling in the near future to report in person to Chiang Kai-shek, although the written reports of their travels have been submitted.

7. CHINESE RAILWAYS.

During the past few weeks Mr. Ku Meng-yu, Minister of Railways, has been conducting a series of conferences in Peiping with managing-directors of the various government railways with the announced purpose of improving communications throughout the country. Among those who have conferred with Mr. Ku are the following:

Yin Tung: Managing-Director of the Peiping-Liaoning Railway who has been persuaded to withdraw his resignation tendered after the bombing of the first through train to Mukden.
Chen Yen-chiung: Managing-Director of the Peiping-Hankow line.
Shen Chang: Managing-Director of the Peiping-Suiyuan line and son-in-law of Huang Fu.
Ko Kwang-ting: Managing-Director of the Kiaochow-Tsinan line.
Chien Tsung-tse: Managing-Director of the Lunghai Railway.
Li Hsien-ken: Managing-Director of the Canton-Hankow line.
Chiu Wei: Managing-Director of the Tientsin-Pukow Railway.

In view of the fact that a number of local bankers have been known to have been closeted with Ku Meng-yu recently, there is a new crop of rumors to the effect that loans have been contracted between Ku and some of the leading Chinese banks not only for repair work on the Peiping-Hankow road but also for an extension of the Peiping-Suiyuan Railway to the west from Paotow. This latter project, however, was denied by Shen Chang, the Ping-Sui Director, in a statement to the press.

In addition to these rumors there are others which bring in the mailed fist of the Kuantung Army as demanding the Paotow extension scheme as part of a war plan in preparation for hostilities against Russia. It is stated as significant that these railway discussions were held in Peiping instead of Nanking or some other point further south, but so far this office has been unable to secure definite proof that the Japanese have had any direct influence in these discussions.

There is no doubt that the Japanese would like to influence railway building in certain localities. This has been clear ever since the famous "21 Demands" in which Article 3 of Group 5 provides that "In view of the relations between the Province of Fukien and Formosa and of the agreement respecting the non-alienation of that province, Japan is to be consulted first whenever foreign capital is needed in connection with the railways, mines and harbor work (including dockyards) in that Province".

In addition to Fukien the Shantung situation has always been uppermost in the minds of the Japanese General Staff. Another current rumor is that the Japanese are pressing for the construction of a railway from Tsinan in Shantung, westward to

Shihchiachuang or some other point on the Peiping-Hankow Railway. A further Japanese project is supposed to be the plan to extend the Chaoyang-Lingyuan-Jehol line now under construction west from Jehol City to join with the Peiping-Suiyuan Railway at some point between Peiping and Kalgan. Indications of Japanese activity in connection with Chinese railways will be carefully observed.

In considering Chinese railway construction which would be of interest to Japan and Russia, the oft-rumored possibility of a line from Kalgan to Urga might be mentioned. It is understood from reliable sources that one of the first things discussed upon the resumption of diplomatic relations between China and Soviet Russia was this very project, which would then be extended to join the Trans-Siberian road via Kiakhta and Verkhne-Udinsk. The Soviet Military Attache confirms the report that the Kiakhta-Verkhne-Udinsk line has been completed. While the Kalgan-Urga line may be contemplated, this office believes that the difficulties of construction cannot be over-emphasized. From observations made last May in a trip from Kalgan on to the Mongolian plateau along the Urga trail, it is believed that the engineering problem of grading the road-bed over this section would be the most difficult railway engineering feat yet attempted in China.

8. SINO-JAPANESE RELATIONS.

The opening of Customs stations along the Great Wall is continuing and the ones now operating are at Kupehkow, Hsifengkow, Lengkow and Yiyuankow. Mr. Chang Yung-nien, the Deputy Customs Commissioner in charge, is expected to make a tour of these stations in the near future and at the same time to open one at Chiehlingkow. All these places are passes on the Great Wall.

According to Mr. Yin Ju-keng, the Special Administrator of the Chihsien-Miyun area, another conference between representatives of the Kuantung Army and the Chinese will soon take place regarding measures for further solving the various problems of the Demilitarized Zone. He also is quoted as stating that the matter of the retrocession of the Manchu Tombs near the Great Wall had been settled and only awaited the appointment of the representatives of the Manchu house. This latter statement is considered a little too optimistic as it is not believed that the Japanese are anxious to let that important burial ground of the Manchu dynasty pass from their hands in view of psychological reactions with reference to the restored Manchu line in Manchoukuo.

Another interesting milestone in Sino-Japanese relations has been the appointment of Yueh Kai-hsien as Special Diplomatic Commissioner of Chahar Province with station in Kalgan. Yueh is one of the old school of military officers. He is a graduate of a Japanese Military School and for a period of fourteen years, from 1914 to 1928, was Chinese Military Attache in Tokyo. He speaks Japanese and is considered to be a great expert on things Japanese. In view of the situation in Dolonner and increased Japanese interest in eastern Chahar, Mr. Yueh has been appointed there to deal with these matters. In view of his experience in dealing with the Japanese, the

Chinese officials hope that Mr. Yueh will be successful in keeping track of and in counteracting the "cultural penetration" of Mongolia from Manchoukuo.

While Government officials in the North are going through the motions of conducting affairs and minor matters with reference to Sino-Japanese relations in the Demilitarized Zone are moving slowly, it is still evident that all concerned are awaiting the return of Huang Fu. The latest information regarding this event is a message from Huang to Sung Che-yuan, Chairman of Chahar, to the effect that he will be back in Peiping about September 20th. In view of this fact General Sung plans to remain in Peiping for the present.

It is quite likely that the main conference regarding the Demilitarized Zone mentioned by Mr. Yin Ju-keng will be delayed for General Huang. This was intimated by Mr. Yin Tung of the Peiping-Liaoning Railway, who has been holding some preliminary discussions with Colonel Shibayama. It is understood that Mr. Tao Shang-ming, Special Administrator of the Luantung Area, will also participate. According to Mr. Yin Tung the chief subject to be discussed in the conference will be "the measures and procedure for enforcing readjustment in the demilitarized zone". All concerned seem very optimistic but it is the belief of this office that there are many points as yet unsettled and that the satisfactory solution will not be as easy as semi-official statements announce.

Meanwhile in Shanghai, where he arrived on September 6th, General Huang Fu has had an interview with Mr. Ariyoshi, the Japanese Minister. In an interview with the press General Huang said that during his stay in Kuling measures for the readjustment of the situation in North China were extensively discussed with General Chiang and Mr. Wang Ching-wei, the Chairman of the Executive Yuan, and that efforts would be devoted to the rehabilitation of the war area in Northern Hopei.

9. MONGOLIAN AFFAIRS.

Kuo Wang (Prince Kuo), who has been in Peiping as special envoy from Te Wang, the Secretary of the Mongolian Autonomy Council, has returned to Pailingmiao. The mission of Kuo Wang was to discuss with Ho Ying-chin matters relating to certain agreements made by representatives of the National Government with the Mongols (see G-2 Report No. 8908, item 3). General Ho for some reason has not wished to commit himself on these matters and asked Kuo Wang to wait until the return of Huang Fu. Kuo Wang waited a few days but as no definite date was set for Huang's return, the Prince went back to report to Te Wang.

Pao Yueh-ching, a brigade commander of Mongol cavalry until recently when his eyesight failed, has been left in Peiping to maintain contact with Ho Ying-chin. Pao is a Mongol from Manchuria and speaking Chinese as well as Mongol, generally travels as adviser and interpreter for Kuo Wang. In addition to maintaining contact with the Minister of War, Mr. Pao has been given another knotty problem to solve and one that has the Mongol community in Peiping in an uproar.

It seems that with Kuo Wang came another Mongol, Han Feng-lin, who was entrusted by Te Wang with a special mission to interview General Chiang Kai-shek. The possibility had occurred to the Mongols that perhaps the Generalissimo had ordered certain of the agreements mentioned above carried out but that his subordinates had delayed in their execution. The main point under suspicion was the failure of the Autonomy Council to receive the monthly expense money from Nanking. For some reason the messenger stopped in Peiping for a few days. On the evening of September 5th he was called upon by three Chinese who asked him for his license to carry a revolver. This he produced and was told that he would have to go to the proper office to have it renewed. The Mongol left in company with the three Chinese and has not been heard of since.

The Mongol community has made representations to the police and also to the Headquarters of the Garrison Commander but without results, both offices claiming that their representatives did not call upon the Mongol. Their efforts to locate the messenger have all been fruitless. Naturally the Mongols believe that the Chinese authorities are deceiving them and that the Mongol was kidnapped to prevent Te Wang's message from reaching the ears of Chiang and as a warning to future direct representations to the Generalissimo. The case of the missing Mongol remains unsolved.

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Major, Cavalry
Assistant Military Attache

No. 8915 1st Ind. WSD:elh

Office of the Military Attache, American Legation, Peiping, China, September 14, 1934 - To: Chief, Military Intelligence Division, Washington, D.C.

Approved.

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WAR DEPARTMENT

COMMENTS ON CURRENT EVENTS

September 15—28, 1934

RECEIVED G/2 W. D. OCT 23 1934

1. The National Government.
    - Draft Constitution.
    - League of Nations.
    - Fifth Plenary Session.
2. S.M.R. Agents in China.
3. Missing Mongol Envoy.
4. Sino-Japanese Relations.
5. Visiting Ambassadors.
6. Chinese Deportees.
7. C.E.R. Settlement?
8. General Parker in China.

1. The National Government.

Draft Constitution.

On September 21st the draft of the Constitution (see G-2 Report No. 8871, item 1) was brought up for the first time before a full meeting of the Legislative Yuan. It is understood that the Preamble and the First and Second Chapters have been adopted with minor modifications. When the whole document has been accepted, the Government announces that a corrected copy will be published. This will be a definite mark of progress in Chinese governmental affairs.

League of Nations.

General disappointment at the fact that China will have no seat in the League of Nations has been evidenced by officials in general though it is believed that those who think the League will actively help China against Japan are in the minority. The main point seems to be the feeling that China has lost face by being dropped from a seat in the Council.

There are many expressions in the vernacular press to the effect that since China will not be represented there is no reason to contribute to the League. Apparently this is also the semi-official attitude as Quo Tai-chi is quoted in a press despatch from London as saying that, while he was not expressing the opinion of the government, he believed that the time had come when some radical adjustment regarding China's financial obligations to the League of Nations would have to be made.

Fifth Plenary Session.

Latest information from Kuomintang Headquarters indicates that all plans are being laid with the intention of opening the Fifth Plenary Session on November 16th. With the approaching date of the meeting there is increasing activity on the part of political organs in the South. On September 8th Hu Han-min, the veteran Kuomintang leader who has been residing in Hongkong behind locked doors and Sikh watchman, published a statement criticising the National Government on various counts. The statement was signed by some twenty members of the Central Executive Committee who are at present in South China and objected particularly to the Government's foreign policy, the non-resistance of Japanese aggression and the new tariff laws which are claimed to help Japanese goods but not Chinese industry.

Despite this manifesto it is too early to state that there is no hope of bettering relations between the National Government and the Canton faction. It is the belief of this office that the differences between the "ins" and the "outs" lie mainly in the financial rather than the political policy. The Cantonese are proverbially against whatever governmental policy may be in vogue and have always obtained much publicity by virtue of their geographical location near Hongkong and their fiery utterings.

It is to be hoped that the Southwest political groups and those in power in Nanking will make an honest effort to reach a basis of mutual understanding and work for the constructive betterment of China. One of the age-old curses of China has been the willingness of all not in the ruling party to tear down those in power. This characteristic of course is not lacking in other countries but it takes a particularly vicious form in the Orient where there is a willingness to tear down for personal enmity without the redeeming feature of offering some constructive measures in replacement.

2. S. M. R. Agents in China.

The South Manchuria Railway, always to the fore in the economic penetration of Manchuria, has never been inactive in China proper. The best guide-book of China is the one published by the Japanese Railway Administration in Tokyo and based on the one first published for Manchuria. The S.M.R. is constantly sending agents to different parts of China for the purpose of gathering economic information, much of which of course has a distinctly military value. It is known by this office that recently inquiries have been made in Peiping reference the purchase of the Legation Quarter electric light plant by the S.M.R. agents. The matter was dropped, however, because of the fact that the S.M.R. was being forced by the Kuantung Army to expand in other industrial fields in Manchuria.

There is ample evidence to show their interest in other areas and S.M.R. representatives are known to have been investigating conditions along the Peiping-Suiyuan Railway. Now from Japanese sources it is learned that the South Manchuria authorities plan to enlarge their staff in Canton. At present they are represented there by Mr. T. Shibuya, who collects economic data in that area. It is believed that increased activities by agents of the S.M.R. and other semi-official organs of Japanese "cultural penetration" may be expected.

3. Missing Mongol Envoy.

The disappearance of Han Feng-lin, an important envoy from Te Wang, Secretary of the Mongolian Autonomy Council to Chiang Kai-shek, still remains unsolved (see G-2 Report No. 8915, item 9). Mongols resident in Peiping have held several meetings regarding the matter and have made representations to the authorities who still deny that any of their agents called on Han the night he vanished. The Peiping Branch Military Council has offered a reward of $1,000 local currency for information leading to his discovery.

From Mongol sources in Peiping it is learned that their leaders received a letter from an unnamed person in Tientsin stating that the missing Mongol would be returned upon payment of $40,000 local currency. The Mongols immediately sent a representative to Tientsin for the purpose of contacting the writer but could find no trace of him. This fact confirms their belief that Han was kidnapped by persons connected with one or another of the Chinese officials and that the ransom letter was intended to put the Mongols off the track by indicating a kidnapping plot for ransom only and without any political significance.

Influential Mongols of all classes in Peiping are still of the opinion that Han was spirited away by the agents of some Chinese political group. They think the most probable to be either those who prevented funds from the Central Government from reaching the Mongolian Autonomy Council and are afraid of having Chiang Kai-shek find it out, or agents of Fu Tso-yi, the Suiyuan Chairman who is doing his best to prevent a separate administration of Inner Mongolia from functioning.

4. Sino-Japanese Relations.

With the return to Peiping of General Huang Fu, after an absence of five and a half months in the South, the long period of uncertainty and speculation as to what would happen should he not go North again has ended. While all concerned had been expecting an announcement of his plans, he appeared in Peiping on the afternoon of September 19th, having flown in Chiang Kai-shek's private plane. He was met at the Nanyuan airfield by a large gathering of prominent officials including General Ho Ying-chin, Acting Chairman of the Peiping Branch Military Council, Mr. Yuan Liang, the Mayor of Peiping, Mr. Ho Chi-kung, Secretary-General of the Peiping Political Council, and General Yu Chin-ho, Director of Public Safety of the Peiping Municipal Government.

Soon after his arrival General Huang interviewed representatives of the Chinese press and was loud in his praises of Chiang Kai-shek who he said was working hard to improve conditions in Kiangsi. With this as a start, General Huang said that the Generalissimo would gradually work for the improvement of the administration of all the other provinces of China.

One of the first persons to call upon Huang Fu after his arrival in Peiping was the versatile Mr. Yin Tung, who has been so active recently in his double role of railway manager and diplomat. It is understood that during this interview matters relative to the Demilitarized Zone were discussed. General Yu Hsueh-chung has also been closeted with Huang and while no information is available as to subjects discussed it is believed that the matter of guards in the zone must have been one of the chief topics of conversation.

Japanese sources state that some arrangement will be made so that a composite force of guards will be formed by troops of Li Chi -chun, Shih Yu-san and Yu Hsueh-chung. The latter's troops are to be taken from under his charge since Yu is considered persona non grata to the Japanese. Just who will command this composite organization, if formed, has not been announced. In connection with this matter it is worthy of note that both Colonel Shibayama, the Japanese Military Attache, and Mr. Yin Tung have left "for Peitaiho". It is understood that a meeting has been arranged possibly there but more likely at Shanhaikwan for further discussion.

Following the return of Huang Fu the authorities of the Kuantung Army allowed it to be known that they were now ready to discuss the problems of the Demilitarized Zone. It is known that on September 22nd Colonel Shibayama called upon Huang Fu and according to Chinese sources it is learned that some basic principles for these discussions had been decided upon, in order to settle all outstanding questions and to avoid as far as possible any further complications. In order to do this it is planned to establish a Demilitarized Zone Reorganization Committee consisting of seven members, one each from the Peiping Political Readjustment Council, the Peiping Branch Military Council, the Hopei Provincial Administration, the Chihsien-Miyun area Administration and the Luanyu area Administration. There will be two additional members.

Hand in hand with the prospective settlement of the many vexatious questions concerning the "No Man's Land" of North China comes the announcement that the Customs office at Chiehlinkow will be opened on September 28th, thus completing the chain of stations along the Wall (see G-2 Report No. 8915, item 8) at the most important passes from Manchuria into North China. Other matters concerning incidents involving Japanese and Koreans in the Demilitarized Zone are stated to be also on the way to settlement as the result of conversations between Colonel Shibayama and representatives of the special administrative districts.

Summing up the question of Sino-Japanese relations, it may be said that on the whole there is less tension in North China than has been evidenced for some time. There is no question but that the Chinese feel that Huang Fu will be able to find a solution for the most pressing matters. The Japanese too seem more hopeful and believe that they can handle matters better with Huang Fu than with any other person. There were rumors to the effect that General Huang would return only for a short time and that his wife would not come to Peiping. It is now learned that she returned to Peiping on September 26th and apparently is planning to stay. Formerly General and Madame Huang Fu lived in a section of the former Foreign Office. Now they have taken a large house on Ta Fang Chia Hutung in the East City with every indication of settling down permanently in Peiping. Both Chinese and Japanese consider this a good omen for better Sino-Japanese relations.

5. Visiting Ambassadors.

Mr. Saito and Mr. Sato, Japanese Ambassadors respectively to the United States and to France, have been making a tour of Manchoukuo. After finishing an inspection tour of that area in order to acquaint themselves with the situation and so be able to propagandize better in the West regarding the "great accomplishments" of Japan in Manchuria, they paid a short visit to China.

Mr. Saito appears to be a clever type of Japanese and speaks English remarkably well. He made a favorable impression among the foreigners here, which was far different from the preconceived ideas of the man based upon his statements to the press in Washington regarding the "Hands off China" policy.

It is not thought that the visit to China of these two Ambassadors has any particular political significance.

6. Chinese Deportees.

Universal indignation has been expressed from all quarters over the deportation of a number of Chinese from Japan. Most of the Chinese who arrived in Shanghai were restaurant workers. According to Mr. Chen Feng-ching, a member of the executive committee of one of the Chinese Overseas Associations in Japan, the Chinese were deported under the pretext that Chinese merchants were not allowed to organize Kuomintang headquarters in Japan.

A protest was lodged with the Japanese Government by the Chinese Ministry of Foreign Affairs in connection with the above matter on September 14th. A like protest had already been made to the Tokyo Foreign Office by General Chiang Tsopin, Chinese Minister to Japan. It is believed by this office that there will be no wide-spread deportation of Chinese from Japan and that the ones made recently were persons whom the Japanese police desired to get rid of for political agitating as well as other reasons. About eighty Chinese so deported have arrived in Shanghai.

7. C.E.R. Settlement?

On September 25th, Japanese press despatches reported that Mr. Hirota, Minister of Foreign Affairs, stated to the Japanese Cabinet that the Soviet Government had agreed to dispose of the Chinese Eastern Railway at a price of Yen 140,000,000 plus a sum of Yen 30,000,000 for dismissal allowances. Tokyo telegrams announce that the particulars of the agreement will not be published pending the resumption of negotiations between the Soviet and Manchoukuo representatives.

This is the most hopeful report since the matter of the sale of the C.E.R. came under discussion in Tokyo in May 1933. For more than a year the discussion dragged out only to have been dropped last August (see G-2 Report No. 8908, item 5), at which time the Manchoukuo Vice-Minister of Foreign Affairs, Mr. Ohashi (Japanese), left Tokyo. His parting remark was that he might return "if the Soviet authorities show sincerity".

There is no doubt that the Japanese used every means at their disposal to secure a resumption of negotiations as it would be a tremendous advantage to them to have the "world's most troublesome railway" safely tucked away in the bag of the South Manchuria Company. If they have been successful, as Japanese reports indicate, it will remove one of the great sources of trouble in Russo-Japanese relations.

Since the occupation of Manchuria by the Japanese, the C.E.R. has been a great liability to Russia. In every possible way the Japanese have hindered its operation and contrived to divert traffic from its rails. The reason for the construction of the railway was twofold. First it provided a short route to Vladivostock and second it connected with Dairen (then Dalny) and Port Arthur. It was the means to a warm water port for Russian commerce. Prior to the Russo-Japanese War it reached the zenith of usefulness to Russia, and so increased the hold of that country on Manchuria that Japan was forced to fight or be pushed completely off the continent of Asia.

The Peace of Portsmouth in 1905 saw the first step in the curtailment of the value of the C.E.R. when Japan was given control of the section from the Kuantung Peninsular to Changchun (Hsinking). Since that time the Japanese have been steadily working to throttle it, and loans were made to Chinese projects which would render it impotent - the Japanese all the while protesting against lines built by the Chinese which would parallel their own S.M.R.! The recent occupation of Manchuria by Japan was the best opportunity of all and the Japanese made the most of it. The results are well known. The C.E.R. was hampered by bandit raids, Russian employees were arrested on this or that pretext and Russo-Japanese relations have been at the breaking point.

Russia is much concerned at this time with internal reconstruction. She cannot adequately operate the road surrounded by the tentacles of the Japanese economic and military domination of the territory through which it runs. In case of war her title to the railway would be of no help to her. If she sells it now she may be in some small way recompensed for the fortune that it has cost the various Russian governments. Then when Russia becomes industrially better prepared for a war she will be in exactly the same relative position with reference to the Chinese Eastern that she is to-day and, in addition, she will have some hundreds of millions of roubles, the sale price, in her pockets. It is believed that Russia will have everything to gain and nothing to lose if she sells the road to the Japanese-Manchoukuo combination.

8. General Parker in China.

Major-General Frank Parker, U.S.A., Commander of the Philippine Department, arrived at Chinwangtao on the Navy Transport "Henderson" on September 21st. Following a tactical inspection of the 15th Infantry in Tientsin, General Parker proceeded to Peiping where he called on General Huang Fu, General Ho Ying-chin, Major Yuan Liang and General Wang Shu-chang, the Garrison Commander.

While in Peiping General Parker was entertained at dinner by General Huang Fu and General Wang Shu-chang. The Mayor, Mr. Yuan Liang, gave a tiffin party at the Summer Palace and there were a number of other social events for the visiting American commander. General Parker will leave Peiping on September 30th.

S V Constant
S. V. Constant
Major, Cavalry
Assistant Military Attache

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Office of the Military Attache, American Legation, Peiping, China, September 27, 1934 - To: The Chief, Military Intelligence Division, Washington, D. C.

Approved.

W. S. Drysdale
W. S. Drysdale
Lieutenant-Colonel, Infantry
Military Attache

[illegible]

[illegible] leader, who lives in [illegible] Hongkong, but exercises [illegible] political influence in [illegible], recently issued a statement [illegible] Kuomintang members in which he castigated the [illegible] for failure to put into effect any of the resolutions adopted at the Fourth National Congress. The statement was a manifesto signed by twenty members of the central executive committee and central supervisory committee of the Southwest Political Council. In addition to civilian political leaders the statement contained signatures of General Chen Chi-tang, supreme military leader of Kwangtung, and Generals Pai Tsung-hsi and Li Tsung-jen, the most influential military leaders in Kwangsi province.

Chides "Non-Resistance"

The text of the manifesto follows:

"Since the Japanese invasion of Manchuria September 18, 1931, the highest military authorities of the country have been consistently following a policy of non-resistance, and by placing complete reliance on the League of Nations have succeeded in losing four large provinces.

"At the Fourth National Congress of the Kuomintang a resolution was passed ordering all provincial authorities to defend every inch of territory that Japan may attempt to seize, and furthermore appointed General Chiang Kai-shek to lead an army north to recover China's lost territory. Not only has no effort been made to recover Manchuria and Jehol, but the Nineteenth Route Army received no assistance in its courageous defense of Shanghai.

"The agreement for the demilitarization of the Chinese-controlled areas in Shanghai was signed and the Tangku truce agreement was signed by a stanch friend of Japan, Mr. Huang Fu, which led eventually to through railway traffic and postal communications. Furthermore, by putting the new import tariff into effect, China [illegible] strong policy [illegible] of [illegible]

"During the [illegible] orist organization [illegible] existence in the Tangku [illegible] North China, and with [illegible] ered in its hands has used [illegible] tion as a means of gaining its political ends, thus throwing Chinese society into a state of confusion. In order to protect the lives of the people and safeguard the foundations of the Kuomintang, members of the Kuomintang should voice their opinions on this Fascist movement in the form of a resolution.

"It can truthfully be said that the government has had absolutely no foreign policy since the Japanese invasion of Manchuria in September, 1931. The government has declared that it is resisting the invader on the one hand and carrying on negotiations on the other. In reality, resistance has been mere empty talk, while negotiations consisted of giving in to Japan's every demand.

Would Strengthen Foreign Policy

"When Japan issued her famous 'hands off China' statement, every government issued an official statement, while our government was as silent as an autumn cicada. In permitting Huang Fu to assume complete responsibility in negotiating with Japan, international faith in China has been shaken. The only way to preserve China intact as a political entity is to have a strong foreign policy.

"The new tariff which was put into operation by the national government July 1, instead of being beneficial to China's agriculture, industry and commerce, has helped Japan to dump Japanese goods into China through lowered rates on Japanese merchandise, as compared with raised duties on goods of other foreign countries.

"Since the capital was established in Nanking, no less than $1,500,000,000 (about $500,000,000 American) worth of loans have been floated, most of which were used for internal warfare. As a result, the people of the country are suffering more and more. The only means of saving rural China from collapse is to institute productive reconstruction."

It appears likely that General Chen Chi-tang had his tongue in his cheek when he signed the manifesto, as he has shown no evidence of late of a desire to have an open break with General Chiang Kai-shek.

As for Mr. Hu's criticism of the Nanking foreign policy vis-a-vis Japan, it is doubtful if any responsible Chinese believes that China has sufficient military strength to recover Manchuria.

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COMMENTS ON CURRENT EVENTS

September 29 - October 12, 1934

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1. The National Government
    - Draft Constitution
    - Silver Currency
    - Mission to Lhassa
2. National Economic Council.
3. China and Italy.
4. Medical Congress.
5. Situation Relative to North China.
6. Aviation Mission in Moscow.
7. Chinese Eastern Sale.
8. American Minister Leaves.

1. The National Government.

Draft Constitution.

Considerable discussion has been centering around the question of qualifications of the President of the Republic. The Legislative Yuan was the scene of a heated debate over Article 45 of Chapter 4 of the Draft Constitution. This provides that no military man on active service shall be eligible for election to President or Vice-President of the Chinese Republic. The measure was finally passed. No restriction is placed on an officer who has retired from active service.

Silver Currency.

On October 4th Dr. H.H. Kung, the Minister of Finance, gave out an interview to the press to the effect that there would be no immediate drastic increase in the export duty on silver, though China eventually may be forced to protect her silver currency from deflation. Despite the various statements given out by the Government reference some attempted control of currency in China "should occasion demand", it is difficult to see how such control could be established.

Aside from the Bank of China and a few other large institutions, the Government has very little control over money in China. The backbone of Chinese banking is in the hands of smaller private banks. Military control and threats to the personal liberty of the bankers would be about the only means of influencing these family banks and it is not believed that Nanking would take these means.

Mission to Lhassa.

The delays endured by General Huang Mu-sung, Special Commissioner of the Central Government, on his long trip to Tibet (see G-2 Report No. 8915, item 3) are being matched by the procrastination of the Tibetan officials and their refusal to rise to the bait which he has been temptingly displaying. Despite Huang's glowing telegrams and his meticulous observation of the proper rites to do honor to the late Dalai Lama, there is yet to be seen one concrete bit of evidence to the effect that the

Tibetans are anxious to give up their virtual independence and bow their heads to Nanking.

This total lack of enthusiasm on the part of the Tibetan leaders is only to be expected. The geographical and political history of the "Land of the Lamas" does not provide precedent for their joining up at this late date with the Nanking Government and this office does not see just what Nanking has to offer them in exchange for coming into the fold at this time. The Sino-Japanese question means nothing to Tibet nor do any of the plans for a unified China. Tibet has been on her own for many years and is quite well satisfied with the result. Historically, the outlying territories of Mongolia, Hsinkiang and Tibet formerly considered themselves as allies of the Manchus to govern the Chinese. Now the shoe is on the other foot and it is not reasonable to assume that the Tibetans will agree to give up their independent prerogatives and ask to be governed by Chinese officials.

2. National Economic Council.

The most important decision at the recent meeting of the National Economic Council at Nanking was the creation of a National Water Conservancy Commission. The measure was considered necessary in order to unify the control and direction of river conservancy works throughout the country.

The commission will consist of three members with Dr. H. H. Kung, Minister of Finance, acting concurrently as Chairman. It will function under direction of the National Economic Council and its budget has been fixed at an expenditure of six million dollars local currency a year.

The recent trip of Dr. Kung to Shansi (see G-2 Report No. 8871, item 5), where the officials of his province brought great pressure to bear on him for water conservancy funds, is believed to have played an important part in his backing of this scheme. Funds judiciously spent for such projects in Shansi are expected to consolidate this province with the policies of the National Government.

According to T. V. Soong, the technical co-operation between the National Economic Council and the League of Nations will be continued and expanded. Mr. Soong stated that Dr. L. Rajchmann would not return to China as his term had expired but he would be replaced by Mr. Robert Haas. Mr. Haas is reported to be due in China from Geneva in about two months and is expected to be accompanied by a group of experts on water conservancy matters. The provisional budget of $45,000 local currency for the payment of League experts has been approved by the Central Political Council.

3. China and Italy.

It has been evident for some time and has been previously mentioned that Italy was making a definite play for favor with China. This fact has been apparent in the Italian press criticism of Japan and the attention paid to Far Eastern affairs and to visiting Chinese missions by Premier Mussolini. The Chinese air missions have been particularly well received and feted by the Italians.

In China the Italian official and commercial representatives have also been active. The debonair Colonel Mario de Bernardi has started a host of rumors regarding his aviation dealings with the Central Government (see G-2 Report No. 8888) and the Italian mission at Nanchang is still striving to gain a foothold and cut into the work of the American group in the Hangchow School.

The latest gesture on the part of Italy has been the decision to raise the status of the Italian Legation in China to that of an Embassy. This move by Italy has given the National Government a great deal of face, that all important aspect of all relations in this part of the world, and naturally has been received well by the Chinese. When the news reached Nanking, Mr. Wang Ching-wei, President of the Executive Yuan and concurrently Minister of Foreign Affairs, sent the following telegram to the Italian Premier:

> "I learn with utmost pleasure that the Royal Italian Government has decided to represent Italy in China by an Ambassador and to create here an Embassy. I am convinced that the friendly relations existing between our two countries which represent the two oldest civilizations of the East and West will become further strengthened. I take this opportunity to express to Your Excellency my very cordial sentiments."

4. Medical Congress.

On October 3rd the Congress of the Far Eastern Association of Tropical Medicine opened in Nanking. The opening ceremony was held in the auditorium of the Officers' Moral Endeavor Association at the Central Military Academy and the first address was made by Mr. Wang Ching-wei. A speech by Lin Sen, Chairman of the National Government, was read, which was followed by talks given by General Huang Shao-hsiung, Minister of the Interior, and Dr. J. Heng Liu (Harvard alumnus), the Director of the National Health Administration and President of the Congress.

Over four hundred members of the medical profession from various countries have registered, including representatives from Ceylon, French Indo- China, Hongkong, India, Japan, the Malay States, the Netherlands East Indies, Siam and the United States. The officials at Nanking are placing every facility at the disposal of the delegates and are trying to impress them with the accomplishments of the National Government.

The Far Eastern Association of Tropical Medicine has the following as its objects:

1. To promote the science and art of tropical medicine in the Far East.
2. To unite the medical professions of the Far East into one compact organization.
3. To develop and diffuse scientific knowledge.

4. To promote friendly international intercourse amongst medical and scientific persons.

5. To raise the standard of medical education.

6. To enlighten and guide public opinion in regard to the prevention of diseases.

7. To publish the results of scientific investigations.

The Association dates back to 1908 and this is the ninth meeting held under its auspices. Previous congresses have been held in Manila, Hongkong, Saigon, Java, Singapore, Tokyo, Calcutta and Bangkok. The ninth meeting just held at Nanking closed on October 8th.

5. Situation Relative to North China.

Despite the fact that the capital of China has been physically moved to Nanking, the geographical location of Peiping still keeps it the vital spot in that most important of Chinese negotiations with foreign powers - Sino-Japanese relations. The fact that Huang Fu returned to head the Peiping Branch Political Council was evidence that some understanding had been reached with reference to his power in North China in general and his authority to deal more directly with the Japanese in particular.

It is known that General Huang Fu has the confidence of Chiang Kai-shek but just how much the latter will be able to keep the various Yuans of the Central Government in line, should there be any outward change in Huang's attitude toward the Japanese, remains to be seen. Huang has been hampered and has lost face on several occasions by the presence of General Ho Ying-chin, the Minister of War, in Peiping. Ho was one of the original commanders that accompanied Chiang Kai-shek on his memorable march northward from Canton and has been one of his most loyal supporters. His station in Peiping was generally understood to be a sort of forward observation post for Chiang and to serve as a check on any radical move on the part of Huang.

Ho's appointment as "commissioner for the guidance of Mongol autonomy" was considered a slight to Huang Fu, since Huang's political position would have seemed more suited for that concurrent post than that of the Minister of War, who was head of the Peiping Branch Military Council. Then too, Ho has command of troops while Huang Fu does not. Being originally a military man, this has made Huang resentful despite the great influence brought to bear on him by Madame Huang Fu, who has consistently been striving to separate his political career from the military.

Soon after the return of Huang Fu, General Ho Ying-chin announced that he was making an inspection trip of Inner Mongolia. This at once started all kinds of rumors which have not yet ceased to the effect that Ho was to return to South China. Since his appointment in connection with Mongolian Autonomy, Ho has evidenced very little interest in the matter and Mongol delegations have received but scant satisfaction in their reports to him regarding the failure of the Chinese authorities to live up to their agreements (see G-2 Report No.

8915, item 9). The latest delegate, Kuo Wang, was asked to await the return of Huang Fu and an important Mongol leader supposed to be on a mission to see Chiang Kai-shek was mysteriously abducted without trace. While the police and military authorities claim to know nothing of this matter, it seems peculiar on the face of it that in China where the greatest secrets are only relative, the kidnapping under the circumstances surrounding the Han Feng-lin case would not leave a clue.

The inspection trip of General Ho to Inner Mongolia was confined principally to Kalgan, Tatung, Kweihwa and other points along the Peiping-Suiyuan Railway. There was much entertaining and reception for the Minister of War but so far as can be ascertained there was very little actual investigation of the conditions in Chahar and Suiyuan provinces. General Ho returned to Peiping on October 2nd.

Following the return of Ho from his flying visit to Inner Mongolia there was a general influx of important military and political leaders to Peiping. This included such personages as

General Fu Tso-yi, Chairman of Suiyuan,
General Sung Che-yuan, Chairman of Chahar,
General Yu Hsueh-chung, Chairman of Hopei,
General Han Fu-chu, Chairman of Shantung,
General Hsu Yung-chang, Chairman of Shansi,
Admiral Shen Hung-lieh, Mayor of Tsingtao.

The reason for this assemblage was a meeting of the Peiping Branch Political Council which was held on October 6th, on the call of its Chairman, General Huang Fu. According to the agenda of the meeting the most important scheduled discussions included proposals for the reorganization of the Demilitarized Zone, the economic development of North China, and the rehabilitation of rural communities in the five northern provinces. As usual much of the time was taken up by calls, dinners and entertainment of the visiting officials.

To foreigners unversed in things Chinese the procedure would look as though the entertainment of officials was far more important than the meetings in which they took part. It must be remembered, however, that the Chinese like to discuss matters in private over the dinner or tea table so that the actual meetings are merely the form of accepting plans already agreed upon. The idea of talking over a matter freely before an assembly, having another opinion voiced and then being approved or voted down is far from Chinese procedure. Too much face would be lost by one party or the other. So while the actual meeting of the Council seemed rather perfunctory, pre-arranged plans were unquestionably announced.

Just what these plans are is not yet evident. According to an old Chinese proverb, "The tide has yet to fall in order to let the rocks stand out", and so it is with the meeting of the Peiping Branch Political Council. From confidential government sources it is known that the present plan is to make General Huang Fu the Chairman of Hopei Province. This will satisfy his desires about command of troops and give him control over the territory which is causing so much Sino-Japanese negotiation. It will eliminate General Yu Hsueh-chung, the present Chairman, from the picture which will please the Japanese, since his command over the police of the Demilitarized Zone has been objected to by the Kuantung Army. It is not clear just what disposition will be made of Governor Yu. While his troops are not a great factor, he himself is quite important and he has been a loyal supporter of Chiang Kai-shek, standing out against Japanese efforts to break North China away from the Central Government. Some important post must be found for him so that he will not lose face in being replaced by Huang Fu.

General Ho Ying-chin left Peiping on October 7th for Hankow, where he met General Chiang Kai-shek. Here we have another example of an important conference affecting government business being conducted away from Nanking. Such procedure would be unusual in any other country but is the rule rather than the exception in China. Chiang goes very seldom to Nanking and never holds any important meetings there as he desires to be free from the political hamperings of the several Yuans. So again in Hankow as in Peiping we see another important group gathered. This includes General Chiang Kai-shek, General Wang Shu-chang, Garrison Commander of Peiping and Tientsin; General Chang Hsueh-liang, now Bandit Suppression Commissioner of the Hankow area; General Liu Shih, Chairman of Honan, and General Ho Chu-kuo, of Shanhaikuan fame.

This conference at Hankow considered in connection with the confidential report that Huang Fu will be made Chairman of Hopei is worthy of note. The present Chairman, General Yu Hsueh-chung, was a former subordinate of Chang Hsueh-liang and one objection to Yu's replacement was the fear that Yu might take offense and ally himself with Chang, influencing him to oppose the Nanking regime. While this latter is not believed likely by this office, it is a possibility causing the local officials no little concern. Looked at in this light, the Hankow conference may be connected with finding a suitable place for General Yu which will satisfy Chang and the former Fengtien leaders.

Another interesting point which is causing much conjecture is the announced trip of General Ho Ying-chin. This trip to Hankow and his intended visit to Nanking and Shanghai is his first visit to the South since his arrival in Peiping in the spring of 1933. Naturally the first thing that suggests itself is that with the return of Huang Fu one of the things that individual desires is to be freed from the presence of Ho in Peiping and the resulting loss of face. Many think that the trip of the Minister of War will mean that he will not return to Peiping. Confidential information from a member of the Political Council, confirmed by a relative of the General, indicates that this trip is partly business connected with making a report on affairs in the North to the Generalissimo, and partly of a personal nature to attend the funeral of his wife's mother who recently died in Shanghai. It is therefore reasonable to believe that he will return to the North in a few months unless some new developments occur.

6. Aviation Mission in Moscow.

The Aviation Mission in charge of General P. T. Mao (see G-2 Report No. 8915, item 6) arrived in Moscow from Warsaw on October 7th. General Mao called upon leading members of the Soviet General Staff and the Commissions for Defense, Communications and Foreign Affairs, in company with members of the Chinese

Embassy. According to advices from Nanking, the Mission will lay a wreath on the Lenin Mausoleum. It is interesting to note that General Mao received his first aviation training in Russia several years ago.

7. Chinese Eastern Sale.

Indications still point to an arrangement whereby Russia will eventually dispose of her interests in the Chinese Eastern Railway. It is true that most of the reports and jubilation emanate from Japanese sources but it is the general belief that the relative silence of Soviet agencies gives the color of consent. Manchoukuo press reports confirm the statement of the Japanese Foreign Minister to his Cabinet regarding the agreement of the Soviet and Manchoukuo authorities (see G-2 Report No. 8927, item 7). According to these statements Mr. Ohashi, the Japanese Vice-Minister of Foreign Affairs of Manchoukuo, called upon Mr. Hirota and informed him that the Manchoukuo government was willing to accept the Soviet offer.

Best available information is to the effect that the sale price will be Yen 170,000,000, of which Yen 30,000,000 will be dismissal compensation for Soviet employees. Of this first amount one-third is expected to be paid in cash and the remainder in goods. While of course the purchase will be made in the name of Manchoukuo it is self-evident that Japan will be the backer as she has been the prime mover in the whole proceedings. It is understood that the tentative plan contemplates either the floating in Japan of a Manchoukuo Government loan or the operation of the Chinese Eastern by the South Manchuria Railway Company as a security for the Yen 57,000,000 (approximate) cash payment mentioned above.

Final arrangements have not yet been published and it is interesting to note that Moscow has been very reticent in giving out their side of the matter. Press despatches from Europe would indicate that there is considerable opinion there to the effect that the supposed arrangement between the Soviet Government and Manchoukuo implies the recognition of the latter. It will be remembered that when the question of recognition came up following the establishment of Manchoukuo by the Japanese, a number of European countries gave a negative reply. Russia however refused to commit herself, possibly with the idea of having a trump in her hand to play at a later date.

The Chinese Government of course is very much interested in the affair as they consider that China is part owner of the railway. The Ministry of Foreign Affairs has telegraphed to the Chinese Charge d'Affaires in Moscow instructing him to find out the exact status of the matter from the Soviet Government. They have also cabled the Chinese Minister in London ordering him to consult with Mr. Litvinoff, the Soviet Foreign Commissar who is at present in Geneva. According to Chinese sources the Government has sent a communication to the Soviet Government regarding the sale of the C.E.R. reiterating their stand on the negotiations for the sale of the road which they still consider the joint property of China and Russia.

8. American Minister Leaves.

Mr. Nelson T. Johnson, American Minister to China, accompanied by Mrs. Johnson and their son, sailed from Shanghai on October 9th aboard the "President Hoover". Mr. Johnson expects to spend a four months' furlough partly in Maryland and partly in Wyoming, returning to China in February.

For and in the absence of the Military Attache:

S. V. Constant
S. V. Constant
Major, Cavalry
Assistant Military Attache

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COMMENTS ON CURRENT EVENTS

October 13 - 26, 1934

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    - Resignation of Dr. Lo Wen-kan
2. Foreign Military Attaches
3. Chinese Mission in Europe
4. Chiang Kai-shek Tours the Northwest
5. British Industrial Mission
6. Sino-Japanese Relations
7. Chinese Eastern Railway

1. The National Government.

Draft Constitution.

The Legislative Yuan has been having some stormy sessions over the Draft Constitution during the last few weeks. The regular sessions were not sufficient and many special meetings were held. The second reading was finally completed on October 13th and the document was then put in shape for the third reading.

Confidential sources state that quite a number of changes have been made since the original document was prepared. These changes are stated to have been made upon the demands of General Chiang Kai-shek. Sun Fo, President of the Legislative Yuan and head of the drafting committee which prepared the original draft, has admitted at least four main changes. One of these changes is the abolition of the National People's Congress and the others have reference to the powers of the executive heads of the Government.

The details of these changes and the final form of the Constitution are being awaited with considerable interest. There is a feeling that Chiang Kai-shek desires to give more power to the executive branch with the possible intention of stepping in as dictator. It is the belief of this office that such a move would be unwise at this time. Chiang, at Nanchang, now has virtually the power of a dictator. He has separated this from the political machinery of the various Yuans at Nanking. He can take credit for the good and shift the responsibility of the bad on the shoulders of the Nanking politicians. To make himself dictator in name would only make him the focal point for opposition. In his present position he is much stronger, at least for the present, and it is believed that the Generalissimo realizes this fact.

Sinkiang Governor.

On October 16th the Executive Yuan accepted the resignation of General Liu Wen-lung, Chairman of Sinkiang Province. General Liu has not been acting as head of the provincial government for some months due to illness and old age, but Nanking has delayed for some reason in accepting his resignation.

General Li Jung, a member of the Provincial Government who has been acting for Liu for the last six months, has been appointed Chairman. In view of this fact no changes in Sinkiang are believed to be imminent.

Diplomatic Appointments.

Mr. Shen Chin-ting, Director of the Department of Asiatic Affairs of the Ministry of Foreign Affairs, was appointed Minister to Panama on October 16th and Mr. Liu Wen-tao was made China's first Ambassador to Italy. It will be remembered that Mr. Liu has been Chinese Minister to Italy and returned to China some months ago, no doubt to discuss the matter of raising the Legation to an Embassy as well as the general subject of Sino-Italian relations and aviation relations in particular (see G-2 Report No. 8935, item 3).

Resignation of Dr. Lo Wen-kan.

On October 17th the Central Political Council accepted the resignation of Dr. Lo Wen-kan from his post as Minister of Justice. Lo Wen-kan is known to have been the subject of much opposition from the Kuomintang and also the Canton clique because of his former political connections with the Fengtien group and Chang Tso-lin, the old Fengtien warlord and father of Chang Hsueh-liang. Official gossip predicts that the resignation of Lo may be a concession to the Cantonese and Hu Han-min in view of the approaching Fifth Plenary Session of the Kuomintang Congress.

To replace Dr. Lo as Minister of Justice the National Government has appointed Dr. Chu Cheng, President of the Judicial Yuan, who assumed his concurrent post on October 22nd. Mr. Chu is one of the old Kuomintang members and a friend of Sun Yat-sen. His first speech indicated his hopes for reforms in the judicial methods of China and the abolition of extraterritoriality so as to elevate the Chinese people to the plane of equality with other nationals in matters of law. In spite of this gesture on the part of Chu, it is not believed that the Government will change its policy of attention to domestic reconstruction in any effort to cause international discussion by bringing up the question of extrality at this time.

2. Foreign Military Attaches.

Information has been received that Major W. A. Lovat-Fraser of the Indian Army will replace Lieut. Colonel V. R. Burkhardt as British Military Attache. Major Lovat-Fraser was commissioned in the British Army in 1916 and saw service in Irak. He has been a language student in China and was a military observer in Manchuria during the Japanese occupation of 1931.

Colonel Burkhardt expects to leave about the middle of November for Singapore where he will be in command of an artillery regiment.

Lieut. Colonel A. Bonavita has informed this office that he will return to France in the near future to command a regiment. His successor will be Lieut. Colonel C.A.G. Sabattier who comes from the War Office in Paris. Colonel Sabattier has been in China for short periods of time but does not speak Chinese.

According to the latest Diplomatic List the Japanese Military Attache staff has increased in size. Formerly several of these officers while acting as assistant attaches were not listed. The complete list is given below:

Lieut. General Yoshiyuki Suzuki (Shanghai)
Lieut. General Sanetaka Kusumoto(")
Lieut. Colonel Kaneshiro Shibayama (Peiping)
Major Tan Takahashi (Peiping)
Major Jiro Ichida (Shanghai)

It will be noted that while Colonel Shibayama is actually an Assistant Military Attache it is the custom here to refer to him as "the Military Attache in Peiping" in view of the fact that General Suzuki is always in Shanghai.

3. Chinese Mission in Europe.

The Chinese military and communications mission headed by Yu Fei-peng, Vice-Minister of Communications, and General Hsu Ting-yao, Commander of the 17th Army (see G-2 Report No. 8826, item 5), left Russia on October 13th for Poland. After a short visit in that country the mission proceeded to Berlin where the members were received by Herr Hitler on October 17th.

Officials here believe that the mission will spend some days in Germany studying communications from a commercial and military point of view. No definite date has been announced for their return to China. The original plan of the mission was to visit the United States on its way from Europe.

4. Chiang Kai-shek Tours the Northwest.

Following the conferences at Hankow (see G-2 Report No. 8935, item 5), General Chiang Kai-shek has been making a tour of the Northwest which in view of the approaching Plenary Session of the Kuomintang Congress may be likened to the pre-election tours of American politicians, except that no doubt exists as to the Generalissimo remaining in office. His trip shows the interest that the National Government has in that great area where Chinese history was made for many years but which has diminished in publicity value during recent times.

Chiang went from Hankow to Sianfu in Shensi Province, stopping en route for the opening ceremonies of a branch Military Academy at Loyang. From Sianfu he went to Lanchow in Kansu and thence to Ninghsia. Most of the trip was made in Chang Hsueh-liang's Ford plane and the inspection party included Madame Chiang Kai-shek and the Young Marshal. In all places the Generalissimo was received with much enthusiasm and he laid great stress on the need for national unity and plans for reconstruction of the Northwest.

It will be remembered that in October 1933 the National Government was being pressed by T. V. Soong to move the Northeastern Army group under Chang Hsueh-liang into the Northwestern provinces (see G-2 Report No. 8666) with the Young Marshal as Defense Commissioner of Kansu, Chinghai, Ninghsia and Sinkiang. Many of the Fengtien clique were opposed to the plan at that time but it may well prove that they have been converted to see the possibilities of the plan now. Certainly the fact that the Young Marshal accompanied Chiang on this trip is well worthy of note. It at once establishes his standing with Chiang and the National Government in the minds of the people of these provinces.

When the plan was first proposed the Fengtien group considered it a loss of face to be moved into the wilds of the Northwest but now having a base established at Hankow, well informed political circles believe that there is a possibility of Soong's scheme being tried. Of course there is the question of the attitude of the provincial governments and people of these provinces, but with the loose control necessitated by present lack of communications it is thought that no serious obstacles would be encountered. Then there is also a growing tendency on the part of certain Chinese, particularly in the North, to consider the failure of Chang Hsueh-liang to hold Manchuria as not being his fault alone and to realize that no matter what man was at the helm in Manchuria when the storm broke, it would have made no difference in the ultimate loss of that territory to the Japanese. They contend that the system of Chinese military and political organization was to blame and that Chang was the scapegoat. This of course is true to a large extent. It is also becoming more evident to the Chinese public that had Chang accepted the Japanese demands, Manchuria would still most likely be a part of China. Chang, however, disregarded the "advice" of Japan and joined with the Nationalist Government - the main cause of his downfall.

From the point of view of a unified China it would be a great feather in the cap of Nanking to consolidate the Northwest under their control. It is a vast and rich domain and would be of great value economically and strategically could it be placed under a proper military regime. Chiang showed his good judgment as well as his political astuteness in making this tour just at this particular time. Perhaps the idea of a new Northwest land in place of their lost Northeastern one has been sold to the Fengtien clique who are known not to be happy in the warmer Yangtze valley. Their experience in organization and administration of this sort of territory should be valuable to Nanking.

The Japanese are watching this move with interest and it is worthy of note that "Captain Kawamato of the Japanese Military Attache's office in Peiping is visiting the various historic spots in Shensi". As a matter of record it should be noted that Captain Kawamato is not carried on the list of assistant military attaches mentioned in item 2 of this report.

The final leg of Chiang Kai-shek's tour was made when he arrived in Peiping from Kaifeng by plane on the afternoon of October 24th accompanied by Madame Chiang and Mr. Donald, the economic adviser of Chang Hsueh-liang. The complete itinerary of the past three weeks since leaving his headquarters at Nanchang includes Hankow, Sianfu, Lanchow, Ninghsia, Loyang, Chengchow, Kaifeng and Peiping. How long the Generalissimo will remain in Peiping has not been announced, but it is understood that he will enter the Peiping Union Medical College for physical examination. Confidential information indicates that a tumor or cancer of the stomach is feared. It is known that his family is much worried about his health.

The recent journey of the Generalissimo to the places mentioned is an excellent example of how the man mixes political sagacity with his iron hand of military persuasion and is still further proof of his and Madame Chiang Kai-shek's understanding of Chinese psychology. There is no doubt but that this trip will greatly enhance his prestige and pave the way for a smoother functioning of the coming Kuomintang Congress when it meets. Latest reports state that the meeting scheduled for November will be postponed. The reason given was that Chiang had asked for the postponement and many other leaders had joined this request, giving as their reason that the anti-communist campaign was at a critical stage and demanded their presence with their troops. It is believed however that Chiang Kai-shek's physical condition is one of the main reasons for the putting off of the Congress and that he and his close associates are more worried about his health than they care to admit.

5. British Industrial Mission.

The British Industrial Mission (see G-2 Report No. 8908, item 4) which has been for some days in Japan arrived in Dairen on October 16th. On arrival Lord Barnby issued a statement part of which is quoted as follows:

> "We have come to Manchoukuo for two objects. Firstly, to study for ourselves the economic progress of your country. And secondly, to enable us upon our return home to inform British industry of the extent to which it can usefully co-operate in the development of Manchoukuo.
>
> "The economic development of a new State must interest the business men of all countries. We are desirous of studying it and of interpreting the facts of the situation to our fellow-industrialists in England.
>
> "We claim that our country has never been backward in following the developments of world trade which is for us, as a world trading nation, of so high an importance.
>
> "We desire to assure you that the increasing prosperity of Manchoukuo will be welcomed nowhere more warmly than in the country whose industrialists have sent us on this mission."

6. Sino-Japanese Relations.

Very little can be added to the history of Sino-Japanese relations during the past two weeks. Huang Fu has been gathering up the threads of administration in the North and all the officials under him are breathing sighs of relief since they were not happy under the temporary charge of Ho Chi-kung, the Secretary-General of the Peiping Branch Political Council. Ho was formerly a military man and when Feng Yu-hsiang was in power in the North, Ho was Mayor of Peiping. Despite the fact that he owed this position to Huang Fu's influence with Feng, there are certain officials who cannot forget that Ho's mayoralty was under the Christian General's regime. This is just another example of the personal loyalty factor in China which is still so strong and is evidenced in every walk of Chinese official, military and civil life.

Following the return of Huang Fu, Mr. Yin Ju-keng, Administrative Inspector for the Miyun-Chihsien Area, and Colonel Shibayama of the Japanese Military Attache's Office in Peiping, made an inspection trip to Malanyu to look over the situation there and at the Manchu Imperial Tombs (Tung Ling) nearby. No definite arrangement has yet been made for the retrocession of this locality and it is believed that the Kuantung Army is opposed to any such move. It considers the Manchu Tombs as having important psychological connections with the present "ruling house" of Manchoukuo and is loath to give up control of this area.

Preparations are being made for the inauguration of the proposed committee for the rehabilitation of the Demilitarized Zone (see G-2 Report No. 8927, item 4). The regulations governing its organization are understood to have been prepared and according to Mr. Yin Tung, who is still acting in his position as diplomat and railway manager, this committee will remain in force for a period of about six months. With this organization in charge, the minor questions regarding administration and policing of the zone are expected to be worked out satisfactorily.

7. Chinese Eastern Railway.

Arrangements for the sale of the Chinese Eastern, or the North Manchurian Railway as the Japanese call it, are going forward in true Asiatic style. Mr. Stepan Kuznetsoff, the Assistant-Chief Director of the line, arrived in Tokyo from Harbin on October 13th and the Japanese were most optimistic regarding the final agreement, even going so far as to announce that the whole affair was expected to be settled by November 10th.

However, on October 15th an interview took place between the Japanese Foreign Minister, Mr. Hirota, and the Soviet Ambassador, Mr. Yureneff, which apparently was most disconcerting to the Japanese. It seems that Yureneff announced that the Soviet Government intends to sell only the railway itself and property strictly in railway use and not the subsidiary properties. These latter include the sites of the Soviet Consulate in Harbin and other properties in semi-official use as well as the property sub-leased by the railway to other institutions such as the Russian Church. This statement by the Soviet Ambassador may mean that the Russians do not intend to give up entirely their troublesome heritage in Manchuria or that they are merely putting obstructions in the way of the sale to secure a higher price or better terms than first announced.

This latter may well be the case since M. Yureneff also made some statements regarding a Japanese guarantee of payments made by Manchoukuo. According to Japanese sources, Mr. Hirota is quoted as saying that this particular request of Russia's can be complied with but will entail some delay as the approval of the Diet would have to be first secured. He advocates the plan of having the Manchoukuo Government float the loan under Japanese advice and of having this loan taken over by the Japanese Bankers' Association. The reactions of the Russian Government on this point are not known but the Soviet Ambassador is stated to be awaiting instructions from Moscow.

There is no doubt of the fact that the Japanese in their enthusiasm overlooked this point regarding the property and the Soviet Ambassador watched them fall into the pit with much enjoyment.

American Newspaper Men in Manchoukuo.

A party of some twenty-seven American newspaper men and their wives have just finished a trip through Japan and Manchoukuo as the guests of the Japanese Press Association. The party included representatives of various papers from all over the United States. Some few of the party visited China but this was not encouraged by the Japanese. According to statements made by some of the personnel who visited China, the entire expense of the trip, which gave them about two weeks in Japan and the same time in Manchoukuo, was paid for them and they were lavishly entertained.

The general impression of the Americans was that they were travelling "through a Japanese tunnel" and were shown just what the Japanese desired them to see. Every time one of the party stepped out of his lodging place a Japanese was present to render assistance. From conversations with representative members who stated that they had canvassed the party on just this point, it is believed that the estimated expense of $100,000 will be largely wasted since the propaganda purpose of the whole affair was too evident to the American newspaper men.

For and in the absence of the Military Attache:

S.V. Constant
S. V. Constant
Major, Cavalry
Assistant Military Attache

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COMMENTS ON CURRENT EVENTS

October 27-November 9,1934

RECEIVED G/2 W. D. DEC 4 1934

1. The National Government
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1. The National Government

Silver Currency

On October 18th a silver equalization committee was established at Shanghai. This committee has access to an exchange stabilization fund of $100,000,000 local currency contributed by the Central Bank of China, the Bank of China, and the Bank of Communications, each having a representative on the committee. These are as follows:

Central Bank of China (Chung Yang Yin Hang),
  Mr. Hsi Te-mao;
Bank of China (Chung Kuo Yin Hang),
  Mr. Pei Sung-sun;
Bank of Communications (Chiao T'ung Yin Hang),
  Mr. Chang Pei-shen.

The main purpose of the new committee is stated to be to prevent any violent fluctuations in silver and gold prices as well as to fix the foreign exchange rate in such a way as to prevent the exploitation of foreign exchange. The immediate result of this stabilization scheme has been a decrease in the value of the Chinese silver dollar from about $2.70 local currency for $1.00 U.S. to slightly under $3.00 local currency.

The actions of this stabilization committee are being watched with a great deal of interest as it is capable of use for the personal interest of those "in the know" as well as for the purpose for which it was established.

Civil Service Examination Conference.

The National Examination and Personnel Conference was opened in Nanking on November 1st under the auspices of the Examination Yuan. A drafting committee of seven was appointed under the leadership of Dr. Hu Shih, the well known philosopher, who are to be responsible for drawing up a manifesto to the nation regarding the significance and results of the conference.

During the few days since the opening of the conference over a hundred proposals have been examined and about twenty have already been adopted. One proposal with reference to examination halls savors of the old system of the Manchu regime. This provides for the establishment of examination halls in the various provinces and municipalities for the purpose of facilitating civil service examinations. With the exception of the frontier provinces where halls will be constructed with funds provided by the Central Government, the expenses for the buildings will be jointly borne by the National and Provincial Governments.

While many people hold up the disadvantages of the Manchu system of examinations which often made an impractical Confucian scholar an administrator over night, it is believed that an examination plan of some kind will be advantageous to China. Too often since the fall of the Manchus the pendulum has swung to the other extremity and an ignorant coolie-soldier has fought his way to an administrative office which he was mentally incapable of managing. The convocation of this Examination Conference is in line with the policy of the National Government to improve the standard of government officials.

Mixed Marriages.

It is understood that new regulations are in process of being drafted by the Ministries of the Interior, Foreign Affairs, Education, War and Navy, which will prohibit persons in these services from marrying foreign women. While nothing has been heard regarding the plans for persons already in government service who have foreign wives, it is assumed that their positions will not be affected for the present.

The reason given for the drawing up of these rules is for the purpose of preventing leakage of government business through the foreign wives of officials of the Chinese Government. There are foreign girls of many countries married to Chinese in official positions, probably more from the Continent than from any other section of the world, though America, Great Britain and Japan are also represented.

2. Kuomintang Congress Postponed.

Speaking at the weekly memorial service at the Central Kuomintang Headquarters on October 29th, Wang Ching-wei, the President of the Executive Yuan, gave a talk on the subject of the postponement of the Fifth Congress which was scheduled to take place on November 12th. The meeting is now understood to be planned for March 12th.

Many reasons were given for the postponing of the Congress such as representations from sixteen provinces, difficulties of many of the military leaders in leaving their districts due to anti-communist operations and the like. The real reason is believed to have been the news brought back from Canton by Dr. Wang Chung-hui, the well known Chinese Jurist at the Permanent Court of International Justice at The Hague. Dr. Wang has just been making a trip through South China for the purpose of sounding out the political complexion of that section and trying to find some common ground on which the Cantonese would be willing to co-operate with the Nanking Government.

Interviewed by the press upon his arrival in Peiping, where he came for the purpose of seeing General Chiang Kai-shek, Dr. Wang seemed very optimistic regarding his southern trip. He stated that all leaders in the South, including Hu Han-min, the veteran Kuomintang leader and former President of the Legislative Yuan, agreed that there was no disagreement on internal political problems which could not be straightened out. While Dr. Wang made no mention of it, this office believes the main trouble between the Cantonese and Nanking is a question of policy vis-a-vis Japan and a personal antagonism between such leaders as Hu and Chiang Kai-shek.

The fiery Cantonese are naturally articulate and being far removed from fear of Japanese reprisals are advocating a policy of active rather than passive resistance. The second point of personal antagonism is based on the characteristic jealousy of the Chinese toward all persons in higher official positions in general and in particular the great personal feeling of Hu Han-min and his close followers against the Generalissimo. It will be recalled that several years ago when Hu was President of the Legislative Yuan he was kept a virtual prisoner by Chiang's orders and not allowed to leave Nanking. Should the personal differences and the matter of a foreign policy be compromised upon by the two parties before next March it will be far better for the unity of the country than to have held the Fifth Congress at this time without the co-operation of the Cantonese.

3. New Naval Adviser.

Advices from London state that Captain J. A. Morse, R.N., D.S.O., has been appointed to succeed Captain Baillie-Grohman as Naval Adviser to the Chinese Government in the matter of training Chinese naval cadets. Captain Morse was born in 1892 and joined the Navy in 1905. He was made a Lieutenant in 1914 and promoted to Commander in 1927. During the World War he received a D.S.O. and was twice mentioned in despatches for extraordinarily gallant conduct at Gallipoli in 1915.

Captain Baillie-Grohman was head of the British Naval Mission to China from 1931 to 1933. He was transferred last year for duty with the Naval Intelligence. The British influence has been paramount in the Chinese naval service for many years and gives every indication of remaining so.

4. The Generalissimo Continues His Travels.

After ten days in Peiping, General Chiang Kai-shek, accompanied by his wife and Mr. W. H. Donald, the British adviser and confidant of Chang Hsueh-liang, left Peiping by train for Inner Mongolia. During their stay in Peiping the Generalissimo and his wife underwent a thorough physical examination at the Peiping Union Medical College (Rockefeller Foundation). When this was completed the College issued a bulletin which stated that aside from eye trouble there was nothing really the matter with Chiang's health. The actual medical report of course is not available but it is the general impression that the trouble with the Generalissimo is more likely to be weak lungs than cancer or tumor of the stomach. He looks thin and is very nervous but apparently active mentally and physically.

While in Peiping General Chiang and his wife were constantly in conferences with various political leaders, and representatives of other prominent people who could not be here personally. Truly the old Chinese expression of "transacting business in a travelling office" applies to the Generalissimo. Between physical examinations he held conferences with Huang Fu and members of the Political Council as well as the Military Council. General Liu Chih, Chairman of Honan, and his wife were admitted to the P.U.M.C. for examination, which is quite the fashionable thing now since Chiang entered that institution. Many other prominent Chinese flocked to Peiping but suffice it to say that all in North China and others as well who had political irons in the fire have made a point of being in Peiping during the General's stay.

All entertainment was characterized by the simplicity advocated by the New Life Movement and even the reception which General and Madame Huang Fu gave for the Chiangs was of the same order. Due to his health, the Generalissimo was unable to attend many of the functions given for him and discouraged the usual round of festivities recognized by the Chinese as due a visiting celebrity. Madame Chiang had one rather embarrassing interview with foreign newspaper correspondents who apparently made her angry when one made a disparaging remark regarding the "so-called National Government". She countered with a remark about "foreign devils" and evidently was much upset, a condition which is very far from her usual state. No remarks as to this interview have found their way into the press by tacit agreement of the correspondents present.

As noted above, the Generalissimo and party left Peiping by the Peiping-Suiyuan Railway on November 3rd and arrived in Kalgan, Chahar Province, the next day. While in Kalgan the General motored to Changpei, a town some thirty-five miles north of the Great Wall, to investigate conditions there. As a result of his visit to Chahar it is stated that Sung Che-yuan, Provincial Chairman, has been promised $60,000 for education and $40,000 for reconstruction.

November 5th saw the party on their way again by train. They arrived in Tatungfu, Shansi Province, the same day and visited the famous Buddhist cave temples at Yunkang. These caves are famous as representing the oldest Buddhistic stone monuments known in China and date back to about 386 A.D., the time of the Northern Wei Dynasty, which had its origin in the kingdom of the Toba Tartars.

Arriving in Kweihwa, Suiyuan, on the 6th, the Generalissimo was met by General Fu Tso-yi, Chairman of the Province, and was given an opportunity to inspect conditions in the vicinity. One of the most interesting facts of his welcome was that Prince Yun and Prince Te (Yun Wang and Te Wang) came down from Pailingmiao. The situation vis-a-vis Mongolia will be discussed elsewhere in this report.

The party left Kweihwa on November 8th and while the further itinerary of General Chiang Kai-shek is unknown, it was announced that the first stop would be Taiyuanfu, Shansi Province. When the General was in Peiping he received Chao Tai-wen, the representative of Yen Hsi-shan, who invited Chiang to come to Shansi, and this trip is no doubt partly due to this conference. Another reason is the desire of Chiang to bring Shansi closer into the fold. It is learned from very reliable sources that Dr. H. H. Kung, the Finance Minister, expects to come north by airplane and to meet the Generalissimo in Shansi. The combination of Chiang and Kung, who was formerly a Shansi official, is hoped to secure greater co-operation from that traditionally independent province.

5. British Maneuvers.

Last July there was considerable excitement caused by British troops stationed at Shanhaikwan carrying on maneuvers outside the Great Wall (see G-2 Report No. 8893, item 5). At that time the British authorities in China decided that they would continue the practice despite Japanese protests.

It is therefore interesting to note a despatch from London under date of November 5th which quoted Sir John Simon, the Foreign Secretary, on the subject. He remarked to the effect that as His Majesty's Government did not desire to be drawn into a discussion on the juridical questions involved, it had been decided that British troops at Shanhaikwan should abandon the practice of carrying out exercises beyond the Great Wall.

No particular comments on the matter have been heard here save from Chinese sources, which consider it a great concession on the part of the British Government and view it with alarm as they do the British Industrial Mission to Manchoukuo, considering both signs of Anglo-Japanese rapprochement. Local British authorities are loath to comment upon the incident as they consider the action of their Government to have caused them considerable loss of face.

6. The Mongolian Question.

With the trip of General Chiang Kai-shek to Kweihua there is a much brighter prospect of a solution of the Mongolian question. It will be remembered that following the establishment of the Autonomy Council at Pailingmiao, there were several points agreed upon between the Mongols and the representatives of the National Government. These included the paying of expense money by Nanking each month for the Council and a further payment to the Mongols of a part of the tax on former Mongol lands (see G-2 Report No. 8908, item 3). According to confidential Mongol sources the promises of the National Government envoys were not fulfilled.

The Mongols have tried to reach Chiang Kai-shek with their protests but were not successful. One of their envoys, Han Feng-lin, was spirited away from Peiping without a trace (see G-2 Report No. 8927, item 3). The Mongol leaders in Peiping believe this to be the work of representatives of Sung Che-yuan and Fu Tso-yi, the Chairmen of Chahar and Suiyuan, who did not wish the true state of affairs in Inner Mongolia to reach the ears of the Generalissimo. However, all officials just mentioned have tried to place the blame upon the shoulders of the 3rd Military Police Regiment which is Chiang's own unit in Peiping.

This office has most reliable evidence to prove that neither General no Madame Chiang Kai-shek had any information regarding the true state of affairs between the officials of Chahar and Suiyuan and the Mongols. It is equally certain that the General knew nothing of the Han Feng-lin case. These two points are believed to be the reason for his trip to Inner Mongolia. While in Peiping the General sent Hsiao Chen-ying as a special envoy to Pailingmiao to try and arrange for a meeting with Prince Yun and Prince Te. Hsiao was formerly chief secretary to Sung Che-yuan and now holds concurrent posts in the Chahar Provincial Government, the Peiping Branch Military Council and the Peiping Political Readjustment Council.

Latest word from Kweihwa indicates that Prince Yun and Prince Te actually went there to meet the Generalissimo and so Hsiao accomplished his mission which was by no means an easy one.

The fact that these Princes were willing to leave Pailingmiao shows that they are more than willing to co-operate with the National Government. In Mongolia, men like Yu and Te are almost Living Buddhas to their own people and their willingness to come to Kweihwa even to meet such a personage as Chiang Kai-shek is something of a concession. In addition to this fact, this office was confidentially informed that Te Wang would not go to Chahar as the Mongols feared for his personal safety following the Han Feng-lin incident. However, we were informed that provided certain assurances were given, Te Wang might go to Kweihwa.

Apparently some scheme was worked out and opportunity will be given the Mongol leaders to present personally their views to the Generalissimo. This should be profitable to both sides and it is to be hoped that the Mongols can be convinced that the Nanking Government has merely delayed in fulfilling its promises and does not intend to repudiate them. This office believes that Chiang and his associates fully appreciate the necessity of keeping Inner Mongolia with them and will do their best in this regard. The difficulty will be to enforce the will of Nanking upon the provincial officials of Chahar and Suiyuan unless a much greater measure of supervision is exercised than has hitherto been the case.

7. Sino-Japanese Relations.

There can be no doubt of the fact that one of the main topics of conversation between General Chiang Kai-shek and Huang Fu during the former's recent visit to Peiping was the question of Sino-Japanese relations. To all outward ppearances matters seem to be moving smoothly despite rumors to the effect that since Huang's return from the South his popularity with the Japanese has suffered.

Plans have finally been announced for the Commission for Rehabilitation of the War Zone (Chan Chu Ching Li Wei Yuan Hui) which will be under the control of the Peiping Branch Political Council. The Commission, which started work November 1st, will have a standing committee of three and a membership of seven which is stated to be as follows:

Yin Tung, Managing Director of the Peiping-Liaoning Ry.
Li Tse-yi, formerly on Luantung Retrocession Commission.
Colonel Chu Shih-chin, Peiping Branch Military Council.
Yin Ju-keng, Administrative Inspector of Miyun-Chihsien District.
Tao Shang-ming, Administrative " " Luantung District.
Hsu Tung-hsin, Representative of Hopei Provincial Govt.
Yu Kai-hsien, Special Foreign Office representative in Chahar.

The standing committee is composed of the first three officials mentioned above. Present plans are to have the Commission remain in office for six months, but it is believed that a longer time will be required.

Latest reports indicate that negotiations are under way for the evacuation of the Japanese troops from the Imperial Tombs near Malanyu and that the retrocession of the Malanyu Pass will be effected by November 10th. This may be true though it will cause surprise in many quarters if the Manchu Tombs are relinquished so easily by the Kuantung Army. Actually their occupation has no value except a psychological one, since the Japanese could easily take them again any time they should desire. It is believed that they will technically vacate the Malanyu Pass as they have the Kupehkow Pass, actually retaining sufficient control to suit their purposes and insure passage of goods and transport without too much interference by Chinese Customs officials.

The question of the abrogation of the Tangku Truce was brought to light on November 7th by the arrival in Peiping of H. E. Mr. Akira Ariyoshi, the Japanese Minister to China. Interviewed by members of the Chinese press shortly after his arrival from Shanghai, the Japanese Minister stated that the time was not yet ripe for the abrogation of the Truce. When asked his reasons for this statement and also whether or not the Chinese had carried out their part of the agreement, Ariyoshi intimated that while this latter might be so, there were certain other matters remaining for discussion.

The Japanese Minister still insists that matters concerning the Demilitarized Zone are purely local matters and that there is no necessity for taking them out of the hands of the local representatives. This of course has been the Japanese attitude throughout all the recent trouble in North China. By keeping the National Government ostensibly out of it and bringing pressure on the local officials, the Japanese have successfully done much more than they could hope to do except by actual declaration of war and occupation of Chinese territory, a thing which it is believed the Japanese Government does not desire at this time.

8. **Aviation Mission in London**.

The Chinese Aviation Mission in charge of General P. T. Mao which has recently been in Moscow (see G-2 Report No. 8955, item 6), has arrived in London. They called upon the Marquis of Londonderry, Secretary of State for Air, in company with the Chinese Minister, Mr. Quo Tai-chi.

This mission left China last July and have been visiting the different foreign countries to inspect aviation matters. The original plans have been carried out nearly to schedule. The only remaining country not yet visited is the United States, which the mission planned to pass through on the return trip to China. No information is available here as to whether they will return direct from Europe or via North America.

S. V. Constant
S. V. Constant
Major, Cavalry
Assistant Military Attache

No. 8964 1st Ind. WSD/elh

Office of the Military Attache, American Legation, Peiping, China, November 9, 1934 - To: Chief, Military Intelligence Division, Washington, D.C.

Approved.

W. S. Drysdale
W. S. Drysdale
Lieutenant-Colonel, Infantry
Military Attache

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COMMENTS ON CURRENT EVENTS

November 10-23, 1934

RECEIVED G/2 W. D. DEC 18 1934

1. The National Government
    Sun Yat-sen's Birthday
    Fifth Plenary Session
2. Reorganization of Hopei Government
3. Sino-Swedish Expedition
4. British Industrial Mission
5. Adultery Law
6. Chinese Military Missions
7. Chiang Returns to Nanchang
8. The Generalissimo and the Mongols
9. Ambassador Bullitt in China

1. The National Government.

Sun Yat-sen's Birthday.

Nanking was the center of celebrations which took place all over the country on November 12th, the anniversary of the birthday of the late Sun Yat-sen (Sun Wen). A memorial service was held under the auspices of the Central Kuomintang Headquarters and also a special service at the Sun Yat-sen Mausoleum on Purple Mountain. A great number of officials were present including Lin Sen, Wang Ching-wei, Sun Fo and Tai Chi-tao.

In other parts of China the day was observed as a holiday and various memorial services were held.

Fifth Plenary Session.

The secretaries of the Central Kuomintang have announced that active preparations are under way for the Fifth Plenary Session of the Central Executive Committee of the Kuomintang. Telegrams have been sent to all non-resident members urging their attendance on December 10th. It is stated that at this session will be decided the definite date for the holding of the Fifth Plenary Session of the Kuomintang Congress which was to have been held this month (see G-2 Report No. 8949, page 5, par. 1).

2. Reorganization of Hopei Government.

One of the immediate results of Chiang Kai-shek's visit to North China has been the reorganization of the Hopei Provincial Government. It has been evident for some time that Huang Fu was not satisfied with conditions as they were in that province but has been unable to effect much change with the approval of Nanking. Following Chiang's visit the situation has cleared up considerably with the result that Huang Fu has been able to commence a reorganization of the whole provincial administration. Certain of these changes are known to have been on Huang's own initiative, others upon the representations of the Japanese.

Perhaps the most important change which is planned is the creating of Tientsin as a Municipality under the control of the Executive Yuan, or actually under Huang Fu. The provincial capital will be gradually moved from Tientsin to Paotingfu and with the capital of course will go General Yu Hsueh-chung, the Provincial Chairman. This move will give Huang Fu more power in this area and will also please the Japanese who are known to be hostile to Yu. Yu's troops will then be moved to the vicinity of Paotingfu and further from Tientsin, another wish of the Japanese.

The Mayor of Tientsin has been shifted by this reorganization. The venerable Mr. Wang Tao, a patriarch of the old school, has been replaced by Mr. Chang Ting-ao, a follower of General Huang Fu. Chang Ting-ao was born in Fengjun, Hopei, and has held various offices in Hopei, Shantung and Shansi provinces. He was Secretary-General of the Peking Cabinet in 1923 under Tsao Kun and is at present a Councillor of the Peiping Political Readjustment Council.

The new administration of Hopei Province is expected to place more power in the hands of Huang Fu, to simplify transaction of local business and decrease chances for friction with the Japanese Army. The people of Tientsin are pleased with the elevation of their city and with the removal of several most unpopular minor officials.

3. Sino-Swedish Expedition.

Information has been received to the effect that Dr. Sven Hedin, leader of the Sino-Swedish Expedition (see G-2 Report No. 8855, item 8) is on his way back to Peiping. Dr. Hedin with other members of this expedition, which was aided by the National Government, left Peiping on October 21, 1933, and has been in the field for nearly a year surveying for possible motor roads between the interior and the coast. One of these routes is approximately the ancient silk route across the Mongolian desert and the other along the old imperial road through Kansu.

Dr. Hedin left Urumchi (Tihua), the capital of Sinkiang, on October 21st and went by motor to Hami, near the Kansu border. This distance of 550 miles was covered in five days. From Hami he traveled to Anshi in Kansu, some 310 miles, arriving there on October 30th. After this his itinerary is not definitely known but is expected to include Pailingmiao, about 750 miles from Anshi. From Pailingmiao the railway at Kweihwa is only a ten hour trip by motor.

Dr. D. Hummel, the Surgeon, and Dr. Folke Bergman, the scientist of the expedition, are stated to have left Urumchi on August 12th for Sweden due to the illness of Dr. Hummel. They are supposed to have gone from Urumchi via Chuguchak (Chimunai), Sinkiang, and thence to the railway at Semipalatinsk.

As previously reported Dr. Hedin and his associates which include four Chinese - one astronomer and three engineers - were given some $50,000 local currency to assist in the expenses of the expedition. This grant was given by the National

Government in accordance with its policy for development of the great northwest territory, a territory which is bound to play an important part in future Sino-Soviet relations.

4. **British Industrial Mission**.

The Federation of British Industries Mission to Manchoukuo, which paid a short visit to Japan and Dairen, has held its last meeting in the Far East. Sir Charles Seligman arrived in Vancouver on November 7th and various other members are returning home by different routes.

Mr. Julian Piggott, the Secretary of the Mission, who also represents the British Iron and Steel Federation, made a short visit to Shanghai. Interviewed on November 3rd just before his departure for England, Mr. Piggott said that he was able to state definitely that at no time, either in Japan or Manchuria, did Lord Barnby make a single political utterance. Lord Barnby never once mentioned either recognition of "Manchoukuo" or the revival of the Anglo-Japanese alliance. Any reports to the contrary, said Mr. Piggott in conclusion, were absolutely false.

Information received from Shanghai indicates that members of the Mission were surprised at the interest shown in China regarding their activities and the possible implication of recognition of Manchoukuo and of a new Anglo-Japanese alliance. While it is true that most of this sort of propaganda is Japanese inspired, the Chinese naturally look askance at any attempt on the part of a foreign country to cultivate commercial relations with Manchoukuo, fearing that political recognition will follow.

5. **Adultery Law**.

The Chinese woman, always a power in the home, is beginning more and more every day to become a power in the state. Even within the last five years the changes have been remarkable in the status of women in China. They are flocking to the universities and even taking their place in business. Women clerks are now to be seen in the Chinese banks, that most conservative of Chinese institutions.

Recently however a new development has been observed in which the Chinese women have attempted and actually succeeded in influencing national legislation. This came about when the new Penal Code was published containing an article which provided for one year's imprisonment for married women guilty of adultery but made no provision for punishing men guilty of the same offence.

The opposition to the new law started among the wives of the very members of the Legislative Yuan who had voted in favor of the provision! This spread to the wives of other officials in Nanking who were joined by the Women's Association of Shanghai. At the present time it is certain that the Penal Code will be subject to revision as the result of the activities of the women, as the Central Political Council has directed that such measures be taken.

6. Chinese Military Missions.

The Chinese Aviation Mission under General P. T. Mao (see G-2 Report No. 8964, item 8) is being shown what Great Britain has to offer in aviation material and training. Their program includes visits to the Royal Air Force Schools and to colleges of technical training at Halton, Manston, Cranwell and Andover, as well as demonstrations at several centers of fighting and bombing squadrons. They will also observe anti-aircraft defense measures and aerial photographic technique. Inspection of the Air Force bases at Gosport, Calshot and Plymouth is contemplated as well as visits to factories of the principal aircraft manufacturers.

It is understood that the British Air Attache to China, Commander R. P. Willock, R.A.F., requested that special treatment be accorded this mission.

The Chinese Military and Communications Mission headed by General Yu Fei-peng and General Hsu Ting-yao (see G-2 Report No. 8949, item 3) has also arrived in England. After spending some time in Germany the mission went to France and now they plan to stay in England for two or three months for the purpose of studying the British communications system.

7. Chiang Returns to Nanchang.

Leaving Kweihwa on November 8th, General Chiang Kai-shek and party arrived in Taiyuanfu, Shansi, after a trip of about eighty minutes over terrain which could not be negotiated in many hours by any other means of transportation. From Kweihwa to Tatungfu takes at least eight hours by train and the section from Tatung to Taiyuanfu requires over ten hours by motor bus, even though the road is an excellent one. For this section of the trip the General's party included his wife, Mr. Donald, General Fu Tso-yi of Suiyuan, and General Wang Chin-kuo, commander of Shansi troops in Suiyuan.

More than twenty thousand persons witnessed the arrival of the Generalissimo's Ford plane at Taiyuanfu. Among the most prominent were General Yen Hsi-shan, Pacification Commissioner and real ruler of Shansi; Chao Tai-wen, adviser to Yen and to the Mongolian Political Affairs Committee; General Hsu Yung-chang, Chairman of Shansi, and last but not least Dr. H. H. Kung, Minister of Finance, who had come from Shanghai for this purpose.

It is quite evident that Chiang has decided to use political means to bring Shansi into the fold of the National Government and he is trying to adjust the matter in traditional Chinese manner. One of the first things he did was to call upon the parents of Yen Hsi-shan. Numerous conferences were held in which ways and means were discussed. It is known that while Shansi still desires to hold to its policy of isolation from internal affairs, the Shansi officials are worried over the possibility of Russian and Japanese activity in Inner Mongolia.

This office has been confidentially informed that plans are under way to send some picked troops from Chiang Kai-shek's own units to garrison northern Shansi along the Suiyuan border. This is no doubt Chiang's own plan, conceived some time ago when he arranged for a division of Shansi troops to be sent to Kiangsi to help against the communists. Now the exchange of Chiang's own troops for these is defended on the grounds of replacements. Both sides would actually gain by this move; Shansi would get some well trained troops in place of the practically useless ones sent to Kiangsi and Chiang Kai-shek would have one of his picked units in a territory which has usually been unwilling to follow the dictates of Nanking. However this may be, this office believes that much talk, delay and compromise will take place before the conservative Shansi officials will agree to having alien troops inside their mountain fastness.

The Generalissimo and party left Taiyuanfu on November 11th in separate planes. Chiang planned to fly directly to Nanchang but due to adverse weather conditions landed at Hankow. The remainder of the journey was made on the gunboat "Yungsui" to Kiukiang and thence by plane to Nanchang. Madame Chiang, accompanied by Mr. Donald and Dr. H. H. Kung, returned to Peiping, arriving on the afternoon of the 11th. On the 13th they went by train to Tientsin. Here Kung inspected some of the Haiho River conservancy work. The party left by plane for Tsinanfu, Shantung, on the morning of the 12th.

In Tsinanfu the party was entertained by Han Fu-chu, the Chairman of Shantung, and it is understood that promises were made to give financial aid in the river conservancy program now under way in that area. Political questions were not neglected, however, and some overtures were made to Feng Yu-hsiang, now living in retirement at Taishan. One of these plans is to have Feng make an inspection trip of the United States and Canada and it is learned from persons close to him that he would not be averse to such a tour at government expense.

From Tsinan, Madame Chiang and Dr. Kung flew to Tsingtao where they were greeted by Admiral Shen Hung-lieh and shown the latest improvements in that city such as the new athletic stadium and a new dockyard. In Tsingtao, Dr. Kung inspected the financial institutions of the Government in that area and is reported to have hinted that a large loan to the Tsingtao Municipality might be floated in the near future. They left Tsingtao on the 17th, arriving in Shanghai the same day.

Now that the tour of the Generalissimo and his party is ended the natural result is to ask what has been accomplished. There has been much good done and some seeds of doubt planted, the results of which cannot now be estimated. On the side of the good has been the fact that Chiang has appeared in person to a great number of Chinese to whom he has previously been almost a myth. The actuality of a leader and a central government has been shown to a great mass of the people. These elements cannot but do good for the cause of unity in China.

Then the fact that Chiang has had an opportunity to talk personally to many officials is of great importance, particularly in China where of all countries the leaders live in guarded seclusion, a legacy of feudal times. A leader in

China must depend largely on what his advisers tell him and many a powerful leader has fallen by his inability to get at the truth of events. The fact that such is the case accounts in no small measure for the growing power of Madame Chiang Kai-shek in national affairs, as she is in a better position to secure facts than is the Generalissimo. This coupled with her natural intelligence and ability is making her more and more a factor in China.

The only visible seeds of possible discontent have been sown in the many promises made by Chiang, his wife and Dr. Kung of money and assistance of various kinds. If they are followed up with actual fulfilment the results will be tremendous in strengthening the influence of the Central Government. If they are forgotten or indefinitely delayed by subordinates who have their own pet gardens to water it will be most harmful to the Government - worse than if no promises had ever been made. This matter is a most important one which should have the personal attention of some person very close to the Generalissimo. Whether such will be done, time alone can tell.

8. The Generalissimo and the Mongols.

The fact that Prince Yun and Prince Te actually went from Pailingmiao to Kweihwa and met Chiang Kai-shek (see G-2 Report No. 8964, item 6) is concrete evidence that the Mongols are actually trying to co-operate with the National Government. For these men to make such an effort even to meet a personage of Chiang's importance is well worthy of note, in view of their importance in Mongolia. Direct descendants of the great Genghis Khan, these Mongolian princes are practically Living Buddhas to their people, a point which is most important in matters concerning the Mongols.

From all that can be learned, Prince Te was quite satisfied with his conversations with Chiang Kai-shek, who made certain promises with reference to the funds for the expenses of the Autonomy Council. The question of the missing Mongol envoy who was kidnapped from Peiping was discussed and Chiang promised to clear up the case within a month.

Here again we have a serious matter in the matter of making promises. The Mongols will expect Chiang's pledges to be fulfilled to the letter. Should this not be the case it will immeasurably weaken the influence of the National Government with the Mongols and render even more difficult the settlement of the outstanding issues between them and the Chinese.

One point which Chiang overlooked at the time he was in Kweihwa was the matter of arranging for some direct means of communication between himself and the Mongol princes. He should know by now that he cannot trust the regular channels for this and it is certain that the Chairmen of Chahar and Suiyuan will not be eager to have the Mongols progress in the matter of autonomous rule.

In this the Provincial Government of Suiyuan is more concerned than that of Chahar as the enormous tax from opium which comes into Kweihwa and Shansi through Mongolia is an item of paramount importance to the coffers of Suiyuan. Hence Fu Tso-yi is loath to see a government at Pailingmiao which will keep any of this revenue from his province. This office believes that the agents of the interested provincial chairmen are responsible for much of the trouble that representatives of the Mongols have been having in presenting their case directly to Chiang Kai-shek.

As this report is being written information has been received that two Mongolian delegates are to be sent to Nanking to thank Chiang for his visit to Kweihwa. These are Puyingdalai and Chen Shao-wu, the latter being a Mongol who has adopted a Chinese name. These men are believed to be the effort of Prince Yun and Prince Te to establish direct communication with the Generalissimo. It is hoped that the latter realizes the importance of this and arranges for it, instead of trusting the matter to some subordinate bureau which cannot or will not properly cope with these important affairs.

9. Ambassador Bullitt in China.

Mr. William C. Bullitt, United States Ambassador to Soviet Russia arrived in Shanghai on November 9th. He flew to Peiping and after a brief visit here left via C.N.A.C. plane for Nanking on November 20th. His present plans are to sail for the United States on the 27th of this month. Mr. Bullitt hopes to be able to fly to Canton before leaving China.

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No. 8976 1st Ind. WSD/elh

Office of the Military Attache, American Legation, Peiping, China, November 23, 1934 - To: Chief, Military Intelligence Division, Washington, D.C.

Approved.

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COMMENTS ON CURRENT EVENTS

November 24 - December 7, 1934

RECEIVED G/2 W. D. JAN 2 1935

1. The National Government
    - League Advisers
    - Adultery Law
    - Railway Conference
    - Huang Fu's New Post
2. Foreign Ministers
3. Espinosa Visits China
4. Chinese Military Mission
5. Sino-Japanese Relations
6. Military Attache Changes
7. Japanese Military Mission
8. Mongol Envoys in Nanking
9. Fifth Plenary Session

1. The National Government.

League Advisers.

Information from governmental sources indicates that M. Robert Haas, who has been mentioned to replace Dr. Ludwig Rajchman, will leave for China in December. M. Haas will be remembered for his connection with the Lytton Commission.

Adultery Law.

The agitation started by the wives of officials in Nanking against the new Adultery Law (see G-2 Report No. 8976, item 5) has succeeded in partially accomplishing its end and marks a new phase in the growing influence of the Chinese women in national affairs. Because of the activities of the wives of government officials and prominent Shanghai women, the Criminal Code Committee of the Legislative Yuan has recommended a revision of the original "married women committing adultery will be liable to imprisonment for not ower one year" to "any person committing adultery with a married person will be liable to imprisonment for not over one year".

To the casual observer not versed in legal terms it would seem that the women have not yet been entirely successful since the revision puts the blame not on the married person but on the person committing adultery with that individual. The revised article has been referred to the plenary session of the Legislative Yuan for final approval.

Railway Conferense

The first National Through Freight Traffic Conference convened by the Ministry of Railways met in Nanking recently and devoted a great deal of attention to the question of lower freight rates. The object of the conference was to discuss matters of development of domestic industry and agriculture through freer and cheaper transportation by rail. The plan was endorsed by the National Economic Council. A number of recommendations were made to the Ministry of Railways for consideration. The conference was held in accordance with the reconstruction policy of the National Economic Council.

Huang Fu's New Post.

As this report is being written news has been received that General Huang Fu, Chairman of the Peiping Political Readjustment Council, will be given the concurrent post of Minister of the Interior. This appointment is of course a plan to give him more face and a higher position in the National Government.

It will be remembered that the original idea was to make him Chairman of Hopei Province and ease out Yu Hsueh-chung. With the removal of the provincial capital to Paotingfu (see G-2 Report No. 8976, item 2), the power of Yu will be much curtailed as it removes him from the rich city of Tientsin and his troops further inland. Huang Fu, on the other hand, becomes more powerful by being the representative of the body which will control Tientsin as well as Peiping, and now having a Cabinet position is more likely to be satisfied.

His desire for command of troops has yet to be fulfilled but it is quite possible that the police in the Demilitarized Zone will be placed under him as Minister of the Interior and the matter settled in that way. The decision of the Nanking Government as to Huang's new post appears to be an excellent one. It will help to smooth administrative affairs in North China and give Huang Fu enough prestige and face so that he will be in a better position to handle Sino-Japanese relations, which of course is the outstanding problem in North China at the present time.

2. Foreign Ministers.

H. E. M. Henry A. Wilden, the French Minister to China, arrived in Shanghai in November after an absence of nearly a year from China. On his way to Peiping he stopped in Nanking to officiate at the foundation laying ceremony for the new building of the Sino-French Cultural Association. The French are very active in keeping contact with Chinese who have been educated in France and the Sino-French Cultural Association is one of these methods. This activity is sponsored by the French diplomatic officials who do more in this line than do the representatives of any other foreign country.

Mr. A. Ariyoshi, the Japanese Minister, has been making a tour of the principal cities of North China. Interviewed by the press he stated that he saw a big improvement in that area since his visit a year ago, and that while some problems remained in connection with the Demilitarized Zone none were very serious. The Japanese Minister reiterated that there were no secret clauses in the Tangku Truce and remarked that while it was premature to expect Chinese recognition of Manchoukuo, even this was not of immediate importance.

This office believes that the statement of Mr. Ariyoshi regarding the secret clauses must be accepted with reservations. While it may be true that no written clauses exist it is believed that some verbal arrangement was made as previously mentioned (see G-2 Report No. 8908, item 6, page 10). However this may be, the statements of the Japanese Minister are an indication that the Japanese State Department is feeling optimistic regarding Sino-Japanese relations. The Kuantung Army is believed to be less easily satisfied.

The British Minister, Sir Alexander Cadogan, accompanied by his family, has been making an extensive tour of Central and South China. He also included a trip to Hongkong. This is the first journey of any length that Sir Alexander has made since his appointment to China. It is expected that he will return to Peiping before Christmas.

3. Espinosa Visits China.

Dr. R. Espinosa, Vice-President of Nicaragua, has been spending some days in China on the return trip to his own country from Japan, where he went as delegate to the Red Cross Conference. He has been accorded rather unusual treatment by the Chinese Government which has given rise to some speculation as to the motives involved.

The main reason is believed to be a statement by Dr. Espinosa to the effect that Nicaragua would not recognize Manchoukuo. It is learned that he has received one of the highest decorations from the Nanking Government and that his two travelling companions received decorations of lesser degree. So far as is known no public announcement has been made regarding these awards.

4. Chinese Military Mission.

The Chinese Military and Communications Mission headed by General Yu Fei-peng (see G-2 Report No. 8976, item 6) is having a busy time in England. The program for their visit has been arranged by the War Office, the Board of Trade, the Post Office, and the Ministry of Transport.

According to word received here, General Yu has been making an inspection trip through Northern shipyards. His next work will be to study the British postal, telegraph and telephone systems. Meanwhile the civilian members of the mission have been investigating the road building methods of the British, including the materials used and unit costs.

5. Sino-Japanese Relations.

Despite the optimistic statements made by the Japanese Minister to China regarding Sino-Japanese relations and the great improvement in North China, it is doubtful whether the Kuantung Army authorities hold the same views. It will be remembered that some weeks ago negotiations were under way for the retrocession of the Malanyu area and the Manchu Tombs to Chinese control (see G-2 Report No. 8964, item 7). Matters appeared to be progressing when late in November the Japanese troops which had been almost entirely withdrawn returned to the area with every indication of remaining there for some time.

The Japanese are continually calling attention to the necessity of keeping troops in certain places in the Demilitarized Zone due to the prevalence of banditry. While it cannot be claimed that were Chinese troops allowed in this Zone banditry would cease entirely, still it is not an unreasonable assumption that at least a part of the lawlessness and brigandage is due to the fact that no regular military units are present in the area. Also it is hard to believe that the Japanese actually consider that any risk attaches to permitting the Chinese Government to station a reasonable number of troops in that area at this time. Should the Japanese consent to this it would at least put the responsibility directly upon the Chinese authorities.

It is believed that much of the discussion of recent weeks since the return of Huang Fu has been due to the desire of the Kuantung Army to force some agreement over the question of the resumption of postal traffic between China and Manchoukuo. The Chinese of course have been most reticent on the question and have shown no desire whatever to discuss this matter with the Japanese, fearing that it might appear to give tacit consent to the establishment of Manchoukuo.

In this connection, Mr. Ariyoshi, the Japanese Minister, made a statement to the press in Shanghai recently in which he said that the resumption of postal communications between China and Manchoukuo had been taken up again by the Kuantung Army and the responsible Chinese Government officials but that no definite agreement had been reached. This office has confidential information from a usually reliable source to the effect that an agreement of some sort has actually been signed in Tientsin during the past ten days. The Chinese Government is said to have been represented by Tang Yu-jen, the Vice-Minister of Foreign Affairs, who arrived from Nanking the last week in November. The Japanese are supposed to have been represented by Lieut. Colonel Shibayama of the Military Attache's Office in Peiping, and Colonel Giga of the Kuantung Army. The terms of the agreement are said to include a provision to the effect that the subject material would not be given out for some time due to the necessity of "working out minor details".

Perhaps the action of the League in agreeing to the continuation of postal transmission through Manchoukuo but emphasizing the fact that this does not involve recognition of the new empire may serve as the keynote for the Chinese Government's attitude when the resumption of postal relations is finally decided upon. This office believes that the cause of the delay in settling many outstanding Sino-Japanese questions in North China has been the unwillingness of the Chinese to come to terms on the postal issue and it seems very reasonable that a tentative agreement of some nature has been reached.

The point previously mentioned regarding the difference in the viewpoint of the Japanese diplomatic representatives and the military was again brought out in a statement given to the Japanese news services by a spokesman of the Japanese Military Attache's Office in Shanghai. The statement was given out in a review of a two-day conference held by ten Japanese officers (presumably "resident officers") stationed in China and Manchuria. "The Nanking Government", the spokesman stated, "is attempting to delay the enforcement of various items provided for in the armistice agreement, and it was necessary that we should discuss the situation so as to achieve a common attitude. There is no reason why the Japanese army should change its attitude, so long as the Nanking Government still adheres to the practices of so-called revolutionary diplomacy. It was the revolutionary diplomacy advocated by the Central Kuomintang, and enforced by the Nanking Government, that led to the Manchurian and Shanghai incidents. There have been attempts to whitewash the situation since these incidents, but unless there is a radical change in the Chinese Government's attitude there can be no hope that the Japanese army will change theirs."

There has been much written about the divergence of opinion of the Japanese diplomat and soldier but many Chinese held the conviction that this policy works to the advantage of the Japanese Government and may well be a part of Japanese strategy. The Japanese diplomat may be looked down upon by the military officer and bemoan the usurption of authority but he can always say, "Well, we are very sorry about what our rude military men have done, but we non-military people can be friends". Certain it is that the Japanese Foreign Office has never failed to take advantage of the prizes that the War Office has secured.

6. Military Attache Changes.

Lieutenant Colonel V. R. Burkhardt, Royal Artillery, and Lieutenant Colonel A. Bonavita, Infantry, the British and French Military Attaches in Peiping, have completed their tours of duty in Peiping. Colonel Burkhardt has gone to command an artillery regiment in Singapore and Colonel Bonavita to command an infantry regiment in France. Colonel Burkhardt is an expert topographer and much of the British General Staff map of North China is his work.

Major W. A. Lovat-Fraser, 49th Punjab Regiment, Indian Army, is the new British Military Attache. He was a former language student in Peiping and seems able to mix with the Chinese, a trait usually uncommon with the British. Colonel C.A.G. Sabattier of the Colonial Infantry has just arrived in Peiping to replace Colonel Bonavita. He comes from the War Office in Paris, with but little residential experience in China.

7. Japanese Military Mission.

A Japanese Military Mission composed of some fifty officers, which has been making an inspection tour of Manchoukuo, Shanhaikwan and Chinwangtao, is now visiting the coal mines at Tongshan. Upon completion of this they plan to spend several days in Tientsin and Peiping. The sending of parties of Japanese military officers on tours similar to the one described is nothing new and has been customary for a number of years. Despite the fact that the Chinese resent this practice, so far as is known no protest has ever been registered by the Chinese Government.

8. Mongol Envoys in Nanking.

The Puying Lama and Chen Shao-wu, delegates from Prince Yun and Prince Te, have arrived in Nanking. They have interviewed Wang Ching-wei and have also called upon Chao Pi-lien, Vice-Chairman of the Mongolian and Tibetan Affairs Commission, and General Yang Yung-tai, Chief Secretary of General Chiang Kai-shek. Among the questions discussed were the maintenance allowance for the Mongolian Autonomy Council and the disappearance of Han Feng-lin (see G-2 Report No. 8964, item 6).

According to the local representatives of Prince Te, a telegram was received from Hsiao Cheng-ying, who has been a liaison agent with the two Mongol delegates in Nanking, to the effect that those responsible for the disappearance of Han have been punished. The Mongols resident in Peiping have held a meeting and sent a telegram to Chiang Kai-shek requesting that the details of the case be published in order that they may know Han's fate.

Mongol contacts in Peiping state that they have evidence to prove that Han was taken from his home by representatives of the Third Regiment of Gendarmes, Chiang's own troops, whose commander is a relative of the Generalissimo. All efforts to locate him have been unsuccessful and the Mongols are very much exercised over the manner in which the Chinese officials have handled the case.

9. Fifth Plenary Session.

The coming meeting of the Fifth Plenary Session of the Central Executive Committee of the Kuomintang, which is scheduled to be opened on December 10th, looks as though it may prove an important event. Delegates from all over the country are making their way to Nanking. General Shang Chen, Commander of the 32nd Army in North China, General Liu Hsiang of Szechwan, Chang Hsueh-liang from Hankow, and many other prominent leaders have already left for the capital. Advices from Shansi state that Yen Hsi-shan is preparing also to visit the South, and a distinguished gathering is forecast.

As an opening gun came the manifesto issued jointly by Chiang Kai-shek and Wang Ching-wei on November 27th. This embodied their proposals to the forthcoming session. Prefaced with the opinion that unification and peace are paramount essentials for the national unification of China, the manifesto advances a five-point program for a clear division of power between the National Government and the regional governments. The main items covered announced general principles of law enforcement, appointment of government personnel, economic planning, finance, and a differentiation between national and regional armies.

One of the most important points that will come up for discussion is the relations of the National Government to the Southwest. Much political significance is attached to the Plenary Session of the Executive Committee since it is understood that the plans for the Fifth National Congress will be decided upon. This office believes that the Kwangtung and Kwangsi group are beginning to realize that the increasing power of Chiang Kai-shek and the Central Government are no longer to be trifled with, and that the success of Chiang's troops in Kiangsi against the communists added to the lesson of the quelling of the Fukien rebellion have at last made an impression upon them.

Chiang is believed to be making every effort to settle the matter by political means. He has sent Sun Fo, the son of Dr. Sun Yat-sen and former Mayor of Canton, and Doctor Wang Chung-hui, the internationally known jurist, to Hongkong to discuss outstanding questions of disagreement between the South and Nanking with Hu Han-min and other representatives of the Southwest. General Li Tsung-jen of Kwangsi arrived in Canton on December 3rd and will of course be present at whatever discussions are held. While it seems unlikely that Chiang would undertake military measures to bring Kwangtung and Kwangsi into the fold, there can be no doubt but that the presence of Chiang's successful forces along the Kwangtung border and the poor showing made by Kwangtung troops against the communists will be powerful cards in the hands of the Central Government.

Another pressing question which will be discussed at Nanking in the near future is the problem arising in Szechwan where Liu Hsiang is pressing for a large loan in order to carry on against what are claimed to be communist forces in his province. Liu is said to have approached Shanghai bankers but so far to have been unsuccessful in securing the funds. It is certain that he will approach the powers that be in Nanking at the coming session of the Central Executive Committee.

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Major, Cavalry
Assistant Military Attache

No. 8991 1st Ind. WSD/elh

Office of the Military Attache, American Legation, Peiping, China, December 7, 1934 - To: Chief, Military Intelligence Division, Washington, D.C.

Approved.

W. S. Drysdale

W. S. Drysdale
Lieutenant-Colonel, Infantry
Military Attache

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JAN 21 1935

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WAR DEPARTMENT

COMMENTS ON CURRENT EVENTS

December 8 - 21, 1934

1. The National Government:
    - Political Changes
    - Mission to Lhassa
    - Customs Appointment
    - Secret Conference
2. Fifth Plenary Session
3. Sino-Mongolian Relations
4. British Minister Returns to Peiping
5. Chinese Military Mission
6. The Stam Murders
7. Situation in North China
8. Chinese Eastern Railway Parleys

RECEIVED G/2 W. D. JAN 18 1935

M/A See item #5

1. The National Government

Political Changes.

At the same time that General Huang Fu, Chairman of the Peiping Political Readjustment Council, was concurrently appointed as Minister of the Interior (see G-2 Report No. 8991, item 1), there were a number of other changes in the political line up. To make a vacancy in a position having enough "face" for Huang Fu, General Huang Shao-hsiung has been shifted from the Ministry of the Interior to be Chairman of Chekiang Province. The former Chairman, General Lu Ti-ping is an elderly men and has often tendered his resignation.

The change is really a promotion for Huang Shao-hsiung. The title of Minister of the Interior sounds well but to be Chairman of Chekiang is a much more lucrative position. In addition to that he will have certain troops under his control which will make him a more powerful figure. Huang Shao-hsiung is from Kwangsi and was at one time chairman of that province. He is on good terms with the military men of the Southwest and has frequently been used by Chiang Kai-shek on political missions to the South.

Mission to Lhassa.

Word has been received from General Huang Mu-sung, Special Commissioner of the Central Government to Tibet (see G-2 Report No. 8935, item 1) to the effect that he is returning through India. He states that he has been able to arrange for a Chinese Residency at Lhassa and it is understood that the Government intends to appoint Colonel Liu Pu-tseng as the first Resident.

It is also reported that an arrangement has been reached with the Tibetan Regent for the return of the Panchan Lama but this office believes that the Nanking Government is overly optimistic in this regard. The Tibetans have been getting along very nicely for ten years without the Panchan and the men in power are of the same party which forced that individual into virtual exile in China. They do not question his religious position but feel that they are perfectly capable of handling the situation alone.

Indications are that Huang has accomplished little and his return and possible replacement in Lhassa by another representative of Nanking should not be taken as indicating any desire of the traditionally independent Tibetans to forge any closer link with the Chinese Government. In fact the whole story may be a fabrication to save Huang's face.

Conversations with members of the entourage of the Panchan Lama have proved that they are quite frank in saying that they cannot see what the National Government has to offer the Tibetans in exchange for their present independent position. Now they do much as they please in their own way. Should they accept even nominal rule by Nanking it would mean a certain number of Chinese officials being sent into Tibet with no visible benefit to the Tibetans. As a result the Tibetan leaders would not only suffer a loss in revenue but also be hampered in their administrative work which they feel they can do better than the Chinese.

Customs Appointment.

The Japanese Minister to China, Mr. Ariyoshi, has protested to the Ministry of Foreign Affairs in Nanking with reference to the appointment of Mr. Kishimoto as Customs Commissioner in Tientsin. Mr. Kishimoto has been Director of General Affairs in the Customs Inspectorate in Shanghai and has been in the Customs service for many years.

The Japanese protest is said to be based on the fact that now since Japanese trade with China is greater than British trade, the head of the Customs should be a Japanese. This would mean, according to Mr. Ariyoshi, that Kishimoto would replace Sir Frederick Maze, the present Inspector General, who is British.

The Chinese Government takes the attitude that since the Customs is a branch of the Chinese Government its personnel matters are not the concern of any foreign government. This office believes that the British influence will outweigh the Japanese in this matter.

Secret Conference.

According to confidential sources which this office has found in the past to be reliable it is learned that the Japanese have submitted certain proposals to the Chinese Government. These are written more in the form of a request for cooperation than a demand and suggest three major propositions. The first is the enlargement of the Demilitarized Zone to include all the territory east of the Peiping-Mukden Railway inside the Great Wall. The second provides for economic cooperation between the Chinese and the Japanese. In this it is stated that the Japanese are willing to cooperate in furnishing a sum of fifteen million dollars for development in the Yangtze Valley and some thirty millions for development in the Northwest. The third point provides for military cooperation between the two countries which includes the employment by the Chinese of Japanese advisers for each of the Chinese coastal provinces.

When this note was presented to Chiang Kai-shek there was a conference called at the home of T. V. Soong in Nanking at which were present Chiang Kai-shek, Wang Ching-wei, H.H.Kung and Hsu Mo, the Vice-Minister of Foreign Affairs. After discussion it was decided to reply in the negative and Hsu Mo was given the task of drafting the note in proper form, he being the expert in diplomatic note drafting. His job was to put the refusal in language so that it would look almost like an acceptance! This office has no way of verifying the above report but it is received from a person at present very close to the highest officials who has always been a good friend and reliable source of information to this office.

It is allegedly the result of the above proposals, particularly the one regarding the widening of the Demilitarized Zone, that is stated to have occasioned the plan for the establishment of a "Greater Peiping". The Central Government would in that manner retain a better control over affairs in the North should the Japanese attempt to increase their influence in that area.

2. Fifth Plenary Session.

The Fifth Plenary Session of the Central Executive Committee of the Kuomintang met on December 10th in Nanking and closed on December 14th. To the casual observer it would look as though there had been a lot of preparation for a very few days work but it must be realized that in China the actual meeting of any organization decides but little. The formal meeting is but a public ratification of what has already been decided behind closed doors over the ever present tea cup or dinner table and the informal trip to the mountains or hot springs.

It will be remembered that due mostly to a desire for agreement with the Southwest political elements, but announced as incident to Communist suppression, the Fifth National Congress was postponed. Showing the real wish of Nanking for the cooperation of the Cantonese clique, Sun Fo, the son of Dr. Sun Yat-sen and Dr. Wang Chung-hui, the internationally known jurist, were sent to the South. They arrived in Hongkong on December 3rd and at once called upon Hu Han-min in his well guarded retreat. According to statements of Sun Fo, these conversations were satisfactory and indicated a desire of Hu to come to an understanding with Nanking.

The Nanking delegates next went to Canton, arriving there on December 5th. They spent the whole of December 6th in conferences with Chen Chi-tang and Li Tsung-jen, the latter having come from his headquarters at Kwelin for this meeting. Present also were Tso Lu and Hsiao Fou-cheng, very prominent associates of Sun Yat-sen and elders of the old Kuomintang. These conferences cannot have been fruitless for when Su Fo left for Nanking on December 7th he was accompanied by several representatives. These included Tsui Kuang-hsiu, Li Chi-an, Teng Ching-yang, Kuan Su-jen, Chan Chu-ssu and Li Jen-jen. Sun announced publicly that Canton was willing to cooperate with the Central Government and the fact that this has not been questioned is a hopeful sign.

So far as can be seen the results of the Fifth Plenary Session are as follows:

(1) A decision was reached to hold the Fifth National Congress on November 12, 1935. This will allow sufficient time for an agreement to be reached between the Southwest and Nanking.

(2) The five-point proposal of General Chiang Kai-shek and Wang Ching-wei (see G-2 Report No. 8991, item 9) was accepted in principle. This was referred to the Central Political Council for drawing up of detailed plans.

(3) The Draft Constitution which has been under consideration for some time is to be referred to a committee which is to be formed by the Standing Committee of the Central Executive Committee. The views of this body will then be submitted to the Legislative Yuan at least two months before the opening of the Fifth National Congress next year. As noted before, it is believed that certain changes demanded by Chiang Kai-shek are at least a partial cause for the inability of the various committees to make a final recommendation on the Constitution.

Governmental sources appear to be reasonably satisfied with the Plenary Session. It was attended by a large number of delegates, including those mentioned from Canton. This is looked upon as the most hopeful sign in some months toward a Canton-Nanking rapprochement. Then too, while Hu Han-min did not attend the meeting he has not circulated any comments in criticism so far. Officials hope that in the time between now and November 1935 a better understanding may be reached with the Southwest political leaders.

3. Sino-Mongolian Relations.

The mystery of Han Feng-lin, the missing Mongol envoy, which has caused much excitement in Sino-Mongol circles for the past several months has come to light. Han was the right hand man of Te Wang, the Secretary and leading figure of the Mongolian Autonomy Council. He had come to Peiping on a special mission for Te Wang and was about to leave for Nanking to present the Mongol case to Chiang Kai-shek. Just before his departure he was spirited away without trace and the Mongols have been looking for him for several months.

Reliable information has just been received from confidential sources to the effect that Han was shot on September 17th, less than two weeks after his disappearance. The claim of the Mongols that the Third Regiment of Gendarmes, Chiang Kai-shek's own troops, were responsible has proved partially true at least. It was three men of this regiment who abducted Han and shot him but apparently they were acting under the orders of the "Blue Shirts" or "Ching Pang", a very secret organization, and not in their capacity as gendarmes.

The Mongols are reasonably certain that Chiang himself did not really know of Han's disappearance. This is believed to be true, even though a relative of Chiang's is in command of the Third Gendarmes. Telegraphic orders from Nanking order the dismissal of Colonel Wu Tien-ho, who is stated to have been in charge of the gendarmes during the absence in Nanking of Colonel Chiang Hsiao-hsien, the gendarme commander.

The whole matter is most unfortunate as the majority of the Mongols can see nothing but another case of bad faith and double dealing on the part of the Chinese officials. Some of the better educated ones appreciate the fact that Chiang Kai-shek may mean well but that his subordinates keep much from him and often do things of which he has no knowledge. Such is the price of being a ruler in any country but more especially in China. Court intrigue of the eunuchs in the Manchu days reached the pinnacle of furnishing misinformation but the wheels within wheels that surround any powerful figure in China to-day are far from being free of this vicious practice.

More conservative Mongol opinion lays the blame for the shooting of Han at the door of certain Mongols in Nanking who are members of the "Ch'ing Pang", a secret society. Many of these Mongols who are now in official positions in Nanking are completely out of touch with Mongolian affairs. Not a few, with their fathers before them, were born inside the Wall and are Mongol in ancestry only. They think and act as Chinese and their positions in the Mongolian and Tibetan Affairs Bureau in Nanking do no good for the Mongols nor for the relations of the Central Government with Inner Mongolia.

It is learned from reliable sources that Prince Te has been offered the position as head of the Bureau of Mongolian and Tibetan Affairs in Nanking but that he will not accept the post and hence the matter is being given no publicity by the Central Government. The Mongols believe that the offer is made for the purpose of taking Te Wang away from Inner Mongolia where he is a real power, and putting him in Nanking where he will become harmless. It is believed that this is a good estimate of the situation on their part and that Te Wang will never consent to leave Inner Mongolia for the empty honor of a high title.

4. British Minister Returns to Peiping.

Sir Alexander Cadogan, the British Minister to China, returned to Peiping on December 17th after an absence of eight weeks, during which time he made an inspection trip of South China. Leaving Peiping in October he first visited Nanking and Shanghai and then went by sea to Foochow, Amoy, Swatow, Hongkong and Canton.

According to statements given to the public, Sir Alexander paid particular attention to British trading conditions, the British Consular Service, and the general political and economic conditions in South China. When questioned by a newspaper regarding the report that he had made efforts for the establishment of a Singapore-Hongkong- Shanghai air line as a branch of the London-Melbourne Imperial Highway project, Sir Alexander denied that he knew anything about the matter.

With the recent trip of the British Minister to the South have come evidences of an effort to put new life into the Sino-British Cultural Society. On December 12th, Sir Alexander and Dr. Wang Shih-chien, the Minister of Education, were elected Presidents of that organization.

5. Chinese Military Mission.

The Chinese Aviation Mission in charge of General P. T. Mao (see G-2 Report No. 8976, item 6) left London on December 13th. Their plans are to return to China via Italy and the United States. It is interesting to note that this will be the second visit of this mission to Italy, as this was the first stop after leaving China.

It is believed that the mission will be joined in Italy by some twenty students which they brought for training in Italian schools. Whether the whole party will return via the United States or whether the students will come direct and General Mao and selected personnel by way of North America has not been announced.

6. The Stam Murders.

One of the most unfortunate incidents of recent years took place in Anhwei Province recently when the Reverend and Mrs. John Stam of the China Inland Mission were captured and killed by a roving band of Communists. The Stams had just returned to their mission station at Tsingteh, about one hundred miles south of Nanking, after assurances from the authorities that conditions had become safe following the action of the Government troops against the Communists.

Reverend and Mrs. Stam were taken on December 7th by what is believed to be one of the numerous "communist-bandit" groups still at large, which crossed into Anhwei after the National Government drive against Kiangsi Communists. On December 13th word was received that the bodies of the two missionaries had been found near Miaoshao, Anhwei, about ten miles west of Tsingteh. Reports also state that their three-month old daughter was found wrapped with ten dollars in a blanket and was cared for by the family of one of the local inhabitants.

The matter is being investigated by Mr. Willys R. Peck, the American Consul- General in Nanking. Mr. Stam was a native of New Jersey and his wife was the daughter of Mr. and Mrs. Charles E. Scott of the American Presbyterian Mission in Tsinan, Shantung.

7. Situation in North China.

As previously mentioned General Huang Fu, the Chairman of the Peiping Political Readjustment Council, has been appointed concurrently to the post of Minister of the Interior. This post was given him because of the difficulty he has had in dealing with certain military leaders in the North and also to give him the necessary face in dealing with the Japanese.

This solution of the question of Huang Fu's "face" in North China is believed to be a good one as it now puts him on a parity with General Ho Ying-chin in rank, though of course Ho will still have more control of troops as Minister of War than will Huang as Minister of Interior. The possibility of giving Huang Fu command of a special police force for the Demilitarized Zone is still under discussion. Press reports to the effect that the General know nothing of this are published for political reasons as this office has proof that Huang Fu was aware of all the details of the new appointment some days ago.

In this connection may be mentioned the move to create Peiping as the great cultural center of China. In doing this, mention has been made of moving all troops out of the area and the military organs to Paotingfu, which will be the new provincial capital and the residence of General Yu Hsueh-chung. The Mayor of Peiping, Mr. Yuan Liang, is at present in Nanking to discuss the "Great Peiping" scheme but latest indications are that the matter is deadlocked.

Rumors are current that the appointment of Huang Fu as Minister of the Interior and the "Greater Peiping" idea are the forerunners of the abolition of the Branch Political and Military Councils for North China.

Paotingfu has always been the provincial capital in name, though the Civil Governor as well as the Military Governor [as a rule one and the same man] have in recent years been in Tientsin.

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It has also been heard that Huang Fu might be replaced in the North by someone more acceptable to Japan, since of late Huang is supposed to have evidenced a disinclination to cooperate as well as formerly. With regard to these rumors, this office can secure no proof that such a change is contemplated at this time.

The question of the resumption of postal communication between China and Manchoukuo is still being discussed as well as certain administrative questions with regard to the Demilitarized Zone. Meetings have been held in Peiping at which the following have been present: Mr. Yin Tung, Managing Director of the Peiping-Liaoning Railway; Colonel Shibayama, the Japanese Military Attache in Peiping; Colonel Giga, the representative of the Kuantung Army from Shanhaikwan; Mr. Li Tse-i, a member of the War District Liquidation Commission; Mr. Tao Shang-min and Mr. Yin Ju-keng, Administrative Inspectors of the Luantung and Miyun-Chihsien districts respectively; and Mr. Fujiwara, a Japanese who is Vice-Minister of Communications for Manchoukuo. No information is yet available as to details discussed but several of the Chinese have intimated that matters were progressing satisfactorily.

8. Chinese Eastern Railway Parleys.

From Japanese sources it is learned that negotiations for the sale of the Chinese Eastern Railway are progressing and hopes are expressed that the matter may be settled before the end of the month. The question of retirement allowances for the Soviet railway employees is expected to be settled by mutual concessions. The matter of appraisal of goods for payment in kind is stated to be causing some difficulties, though a general agreement in principle is supposed to have been reached. The acceptance by the Soviets of the guarantee by the Japanese banking syndicate has done much to ease the negotiations.

It is understood that the question of through traffic with the Ussuri Railway has been settled. This has been made possible by agreeing to leave this point for direct discussion between the Ussuri line officials and the new administration of the C.E.R., to be known as the North Manchuria Railway, following the final closing of the sale of the latter road.

For the past few weeks practically all information regarding the sale of the "world's most troublesome railway" has come from Japanese sources. In view of the fact that the Russians are articulate upon the slightest provocation, it may be assumed that they are satisfied with the trend of the discussions. The arrival of Mr. T. Ohta, Japanese Ambassador to the U.S.S.R., in Tokyo on December 10th is expected to assist in the negotiations.

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Office of the Military Attache, American Legation, Peiping, China, December 21, 1934 - To: Chief, Military Intelligence Division, Washington, D. C.

Approved.

W. S. Drysdale

W. S. Drysdale
Lieutenant-Colonel, Infantry
Military Attache

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AMERICAN LEGATION
OFFICE OF THE MILITARY ATTACHE
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December 8, 1934

2055-622/222

No. 8992

Subject: Evaluation of Report No. 8927.

To: Chief, Military Intelligence Division,
Washington, D.C.

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1. This office has not intended to disclose any weakening in Chiang Kai-shek's position for in our opinion the facts do not warrant such a conclusion. We believe, and have so reported, that Chiang's power and influence have been increased rather than diminished and that the increase has been continuous throughout the past year. We would advise accepting with reservation statements to the contrary from any other source.

2. What decision will be made at the Fifth Kuomintang Congress is of course mere conjecture now and we would scarcely be so rash as to hazard a prediction as to how Chiang's status will be changed if at all during the political battle that will probably take place. No doubt compromises will be made not only as between Chiang and Canton but between the Generalissimo and other northern political groups.

3. We believe we are in intimate contact with the sources both for and against Chiang and feel justified in reporting that Chiang's strength continues unimpaired.

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COMMENTS ON CURRENT EVENTS

December 22, 1934—January 4,1935

RECEIVED G/2 W. D. JAN 29 1935

1. The National Government:
    - Generalissimo Decorated
    - Silver Policy
    - Changes in Szechwan
    - Sino-Annam Treaty
2. Chinese Pilotage Rules
3. Reorganization in Manchoukuo
4. British Interest in Szechwan
5. Singapore Maneuvers
6. Espionage Cases
7. Broadcasting Station in Hankow
8. Manchoukuo Oil Policy
9. Lunghai Extension Opened
10. Situation in North China

1. The National Government.

Generalissimo Decorated.

According to unofficial reports, the National Government has given permission to General Chiang Kai-shek to accept a decoration from the Italian Government. This gesture on the part of Italy has been expected for some time and is in keeping with the present Italian plan to further in every possible way more cordial Sino-Italian relations.

Silver Policy.

Much comment has been heard recently with reference to the possibility of devaluation of the Chinese silver dollar as a means to check the export of silver by banking interests which are attracted by the higher rates outside the country. Toward the last of December, however, both Dr. H. H. Kung, the Minister of Finance, and Chiang Kai-shek came out with statements to the effect that the National Government had no intention of devaluing the dollar.

Chiang made the additional statement that there had been a steady flow of silver from China in spite of the export duty imposed by the government due to the unfounded rumors regarding the silver purchasing policies of the United States Government. The Generalissimo also said that he believed the American Government would consider the vital concern of China in the silver question and take appropriate measures.

Changes in Szechwan.

General Liu Hsiang has been appointed Chairman of Szechwan Province in place of General Liu Wen-hui. The latter has been made Chairman of the Reconstruction Commission of Sikang Province. This ends, on paper at least, the long standing feud of the Liu family in Szechwan which has occupied the stage in that province for nearly twenty years.

Liu Wen-hui was at one time Chairman of Szechwan himself but after his defeat by Liu Hsiang the position of Chairman was finally passed on to the latter. Liu Wen-hui and most of his troops are now in the northwest of Szechwan with some elements in Sikang. His position is a difficult one as Liu Hsiang is controlling his supply route to the Yangtze River. It is believed that the National Government must have made offers to Liu Wen-hui which would make it worth his while to give up fighting for Szechwan and move into a new territory. It should not be assumed that the mandate appointing Liu to Sikang will end the trouble between the Lius, but with increased government interest in Szechwan and the westward movement of Chiang Kai-shek's troops, the political-military situation in that province may well line up in stronger support of Liu Hsiang.

Sino-Annam Treaty.

The French Minister, M. Wilden, is in Nanking to discuss, among other matters, the Sino-Annam Commercial Treaty. This has been hanging fire for some time and despite the prolonged discussions there appears to be no progress in the matter. The main difference of opinion between the French and Chinese authorities is the matter of the import tariff on rice from Annam into China.

2. Chinese Pilotage Rules.

Recently the Chinese Government has published regulations regarding persons qualified for pilotage duties in Chinese waters. One of the requirements is that the applicant must be a Chinese citizen. Some comment has been heard from Hongkong regarding this point but the Japanese are apparently taking it more seriously than other nationalities. This of course is due to the fact that the Japanese as a rule prefer their own captains to bring vessels into port instead of employing Chinese pilots.

Shortly after Christmas, the Japanese Minister, Mr. Ariyoshi, called upon Wang Ching-wei, President of the Executive Yuan, and entertained him at the Japanese Consulate-General in Nanking. It is understood that the question of qualifying Japanese nationals as pilots was discussed but it is unknown whether or not these meetings have resulted in any agreement. To date the regulations have not been changed.

3. Reorganization in Manchoukuo.

On December 26th the new Japanese system of government for the Kuantung Leased Territory and the South Manchuria Railway Zone went into effect. Founded after the Russo-Japanese War as the Kuantung Government General, this administration has seen a number of changes leading up to the present merging of authority under the Japanese Ambassador to Manchoukuo.

Under the new system the Leased Territory will be governed by the Kuantung District Government under the Kuantung Bureau in Hsinking, which is under the Japanese Embassy there. The Railway Zone also comes under the Embassy. Manchurian affairs in Tokyo will be handled by the Manchuria Affairs Board, controlled by the Ministry of War , which fact eliminates the Colonial Ministry from any influence in Manchuria.

This new system of government in Manchuria ends the discussion which has been taking place between the authorities of the South Manchuria Railway, the Kuantung Government, the Japanese War Office and the Colonial Ministry (see G-2 Report No. 8882, item 3). With General Jiro Minami as Japanese Ambassador to Manchoukuo and also Commander-in- Chief of the Japanese Kuantung Army it is quite evident that the War Office in Tokyo has won out in the struggle for control of Manchuria.

The "Special Service Department" of the Kuantung Army, which has been so powerful in Manchuria, has been made a part of the third section in Army Headquarters and will be known as the "Economic Branch". Formerly its personnel interested themselves in strategic, economic and political matters and it may be assumed that the functions of this organization will remain the same.

4. British Interest in Szechwan.

A sign of the growing interest of the National Government in Szechwan is evidenced by the instructions of the Executive Yuan to the Finance Ministry on December 29th to cancel the loan agreement between one of the Szechwan banking firms and a Sino-British corporation for the development of the province (see G-2 Report No. 8908, item 8). Following the announcement of the loan agreement there was a storm of protest from all sources interested, particularly from British returned students who claimed that the loan if actually concluded would give away the natural resources of Szechwan. Actually the agreement was worded so broadly that the mines of the province could have been developed as well as other specifically mentioned items.

Some years ago such a loan would have been concluded regardless of the wishes of the Chinese Government. At the present time, however, with the increasing power of Chiang Kai-shek and his plans to bring Szechwan under closer control of Nanking, it is believed that the ventures of this Sino-British corporation are doomed to failure.

5. Singapore Maneuvers.

Much interest has been aroused in the Far East by the recent combined Army, Navy and Air Force maneuvers at Singapore. British officials announced that these exercises were not planned but that the authorities decided to take advantage of the chance presence in Singapore of elements of the various arms. This office believes that this concentration was planned and is the first of a series of such exercises by which the British will endeavor to prepare themselves for eventualities in this section of the world.

Twenty-one ships from the China station participated, including eighteen destroyers, the aircraft carrier "Eagle", and the cruiser "Cumberland". The exercises were in two phases. The first was a combined night attack on the city followed by another attack the next day and night. Both attacks were stated to have been repulsed.

Incident to these maneuvers was the strange death of Mr. Nishimura, managing director of the Ishihara Sangyo Koshi and the President of the Singapore Japanese Society. Details are lacking but best available information discloses that Mr. Nishimura died of poison a few minutes after entering the offices of the Political Intelligence Branch of the Singapore police, where he had been summoned for questioning. It is also reported that an intensive search of Japanese hotels and residences in Singapore was carried out by the police and that two Japanese are being detained under banishment warrants.

6. **Espionage Cases.**

An unusual charge of espionage has been laid against an Italian naval officer who is attached to the Italian diplomatic mission in Tokyo. According to press reports this officer is supposed to have had a number of Japanese in his employ who secured information for him.

No details are available on this case except the press notices but the thought occurs that it might be the Japanese way of answering the recent Singapore spy incident and also the Russian report from Khabarovsk of the arrest of a Japanese officer along the Ussuri River near Iman.

7. **Broadcasting Station in Hankow.**

The new radio broadcasting station XGOW was opened in Hankow on January 1st under the direction of the Municipal Government. This station has a 5 K.W. transmitter and is next to the Nanking station in power.

It is assumed that this station will be used in much the same manner as the Nanking unit, which sends out news reports, Chinese plays, music and propaganda material. The Nanking broadcast is generally in good "Mandarin" dialect, now called "Kuo Yu" or "National Language", toget away from the parlance of the Ch'ing Dynasty.

The new station will be in the area under control of General Chang Hsueh-liang and will doubtless be used by him for transmission of military messages as well as for the uses mentioned above. With the intelligent advice of Mr. W. H. Donald (British), the Young Marshal may be expected to take full advantage of this new instrument placed in his hands.

8. **Manchoukuo Oil Policy.**

Following the recent discussion of the oil question in Manchoukuo, the Ministry of Commerce and Industry has allocated the supply of oil to foreign and Japanese firms. Japanese authorities have estimated the total consumption of volatile oil in the present fiscal year at one million kilolitres and expect an increase in demand of fifteen per cent. or 150,000 kilolitres in the next fiscal year.

This estimated demand has been allocated at the rate of 583,000 kilolitres for three Japanese firms and 567,000 kilolitres for the three importing firms. The three Japanese firms are the Nippon Petroleum Company, the Mitsubishi Petroleum Company, and the Kokura Petroleum Company. The three import firms are the Socony (American), the Rising Sun (British, Asiatic Petroleum Co.) and the Matsukata (unknown).

It is obvious that the bulk of business will be in the hands of the Japanese and still further curtailment of foreign oil business can be anticipated.

9. Lunghai Extension Opened.

On December 28th the section of the Lunghai Railway from Tungkwan to Sianfu in Shensi Province was opened to traffic. The completion of this section as well as the one on the eastern end of the line, connects Sianfu with the ocean and will do much for the development of Shensi Province, hitherto much handicapped for transportation routes.

At the present time the Chinese Government is pushing construction on the new harbor at Lienyunkang, off Haichow. The Lunghai extension to this new site has been completed save for some minor work and these increased facilities should have an important bearing upon the commerce of western China and the area of northern China between Tsingtao and Shanghai which has previously had no access to the sea save at those two ports.

10. Situation in North China.

The outstanding items of interest in North China continue to center around the question of Sino-Japanese relations. As previously reported, reliable information had been received to the effect that an agreement had been reached by the Japanese and Chinese for the resumption of postal relations between China and Manchuria but the first official statement to that effect was given out by Colonel Shibayama of the Japanese Military Attache's Office in Peiping on the morning of December 31st.

The information announced by Shibayama is quoted below:

> "The long-pending question of the restoration of postal communications between 'Manchoukuo' and China has reached an amicable settlement. The negotiators of the agreement were the Kuantung Army and the Shanghai Postal Administration.
>
> "Ordinary mail service will commence on January 10; money order and parcel post services to be inaugurated from February 1st.
>
> "The Manchurian authorities have announced the following as postal rates on material bound for China:
> "Ordinary letters........4 cents per 20 grams.
> "Express Delivery........8 " " " "
> "Registery...............8 " " " "
> "Parcels.................4 cents for 1 kg., 2 cents for each additional kg."

It is understood that letters to Manchuria and Jehol will be treated as domestic mail as far as China is concerned. The mail will not be addressed to "Manchoukuo" but to the old provincial designations existing before the occupation by the Japanese --- Fengtien, Kirin, Heilungchiang and Jehol. The present Chinese stamps will be used from China but from Manchuria there will be a special set of stamps instead of using the regular Manchoukuo issue. Letters to and from Manchuria will be handled through two centers along the Great Wall - Shanhaikwan and Kupehkow. Despite the fact that domestic mail in Manchuria requires four cents as compared with the five cents necessary in China proper, the difference in postal charge will be ignored.

Advices state that "third party" offices will be set up to handle the mails but aside from additional personnel at the two centers noted above, there seem to be no preparations for such a move. Perhaps these two centers constitute the "third party". Considerable work will be required to re-address mail because of many changes in names in Manchuria since Japanese occupation.

These regulations seem workable and should solve the problem. The Japanese have achieved their end and the Chinese have retained their face by using domestic stamps on Manchurian mail, while the letters from Manchuria will bear a special stamp. Just what this stamp will be has not been announced. In addition to solving local postal problems the transmission of letters to Europe via Siberia will be facilitated.

With reference to the numerous conferences which have been taking place in Peiping (see G-2 Report No. 9005, item 7) between the Chinese and Japanese, the postal question is the only matter which has been given publicity as yet. Other points which were under consideration involve the demilitarized zone, and the police for that area. It is understood that tentative plans have been made and that some of the Japanese, including Colonel Giga of the Kuantung Army, have returned to Hsinking to take the Chinese suggestions to the Japanese authorities there. Reliable sources state that the number of these special guards has been fixed at 5,000 but that the selection of their armament is yet to be decided upon by both parties.

Questions regarding customs stations along the Great Wall are also believed to have been discussed. No details as to the decisions are as yet available.

Sino-Japanese relations are being guarded with more secrecy than usual during the past few weeks but from outward signs it appears that discussions are proceeding with less friction than has been evidenced for some time. The Japanese are assuming a more amicable front as evidenced by their allowing the use of the old provincial names for mail to the North and Chinese stamps for mail going beyond the Wall.

Rumors regarding the relief of Lieut. Colonel Kaneshiro Shibayama have materialized in the announcement that he will soon leave for a trip to Europe after which he will return to Japan for command duty incident to promotion. He will be replaced by Major Tan Takahashi who has been an assistant at Nanking. Major Takahashi has been in Peiping for short periods though only recently has his name appeared on the diplomatic list. He will be remembered as the "spokesman of the Military Attache's office" in Peiping during the Araki incident (see G-2 Report No. 8789, item 6) and was the one who wrote the English statements given to the press by Shibayama.

As for domestic political problems in North China, little of note has transpired. The government has officially adopted the foreign New Year holidays and the various offices have been closed for several days in succession. Huang Fu has remained in Peiping though his present plans are to leave before the 15th of January for a trip to Nanking to assume his post as Minister of the Interior. While there he will decide upon one or two Vice-Ministers for the Interior Bureau who will be suitable to the Nanking Government to carry on the affairs of the Ministry. The present choice for one at least seems certain to be made from those close to Huang in Peiping. After he has settled this matter, General Huang Fu plans to go to Shanghai for the Chinese New Year, which will be celebrated unofficially as usual. He then intends to return to Peiping.

S. V. Constant
S. V. Constant
Major, Cavalry
Assistant Military Attache

Distribution:
- 6 MID
- 1 Legation
- 1 Tientsin
- 1 Manila
- 1 Tokyo
- 1 Guard
- 1 N/A
- 1 File

No. 9017 1st Ind. WSD:elh

Office of the Military Attache, American Legation, Peiping, China, January 4, 1935 - To: Chief, Military Intelligence Division, Washington, D.C.

Approved.

W. S. Drysdale
W. S. Drysdale
Lieutenant-Colonel, Infantry
Military Attache

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COMMENTS ON CURRENT EVENTS

January 5 - 18, 1934

RECEIVED G/2 W. D. FEB 11 1935

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    - Chiang's New Appointment
    - Compulsory Labor
    - Silver Situation
    - Disquieting News from Tibet
2. Customs Appointments
3. Espionage Case
4. French Mission to Manchoukuo?
5. British Defense in the Far East
6. Italian Diplomatic Changes
7. Affairs in Manchoukuo
8. China and Japan in the North

1. The National Government.

Chiang's New Appointment.

On January 8th General Chiang Kai-shek was appointed to another concurrent post. The new mandate makes him President of the War College in Nanking in succession to General Yang Chieh, who becomes head of the Educational Department of that institution.

The most important posts now held by the Generalissimo are as follows: Chairman of the Military Affairs Committee; State Councillor of the National Government; member of the Central Executive Committee of the Kuomintang; member of the Standing Committee of the National Economic Council; member of the National Defense Commission; President of the Nanking War College.

To the Occidental this multitude of titles and consequent overlapping of responsibility would indicate confusion but to the Chinese the idea of concurrent posts is fixed by long usage. They thrive on intricate organization and what to us would spell difficulties to them represents the opportunity for the niceties of involved administration.

Compulsory Labor.

General Chiang Kai-shek has sent a circular telegram to the various provincial authorities ordering the formulation of plans for utilizing compulsory labor on projects dealing with repair and construction of highways and dikes, opening of tunnels and canals, land reclamation and afforestation.

Compulsory labor has been used for centuries in China. The Great Wall, Grand Canal and countless other engineering and construction works are but some of its products. Even in small villages the gentry give funds for the building of a local shrine and the poorer people give their labor. Some such system may be expected in this new drive for reconstruction on a large scale planned by the National Economic Council with the backing of Chiang Kai-shek.

From M/A, China   Report No. 9029   January 18, 1935

Silver Situation.

Latest advices from Shanghai indicate that the National Government intends to purchase some twenty million dollars silver for importation to Shanghai. If this is true it will not only ease the market in Shanghai but will counteract the reports that the Government intended to devaluate the dollar. This possibility has been much discussed despite denials of the rumor by both Chiang Kai-shek and the Finance Minister, Dr. H. H. Kung.

Disquieting News from Tibet.

Telegrams from Lhasa report the death of Mr. Liu Pocheng, Chief Counsellor of the good will mission of General Huang Mu-sung to the Tibetan Government (see G-2 Report No. 9005, item 1). Liu is said to have fallen from his horse on January 6th and to have died from complications incident to the accident. Local officials are feeling considerable anxiety for the safety of the remaining Nanking representative left by General Huang, Mr. Chiang Chih-yu.

It would be no surprise should Mr. Chiang suddenly discover that the climate of Tibet was not suited to his health and start back for Nanking by other methods than horseback! It must be assumed that the Chinese know their own race better than any foreigner and there is a distinct feeling in certain quarters to the effect that the accident to Liu Po-cheng may well be a hint to the Nanking authorities that further missions and the establishment of a Residency in Lhasa would not be welcomed by the Tibetans.

2. Customs Appointments.

Last December the Japanese Minister to China, Mr. Ariyoshi, protested to the Chinese Foreign Office against the transfer of Hirokichi Kishimoto from Shanghai to Tientsin (see G-2 Report No. 9005, item 1). This move is alleged to have been made on the grounds that as Japanese trade exceeded that of Great Britain, Kishimoto was the logical man for Inspector General to replace Sir Frederic Maze, a Britisher.

The Japanese attempt to make an issue of the Customs appointments is based on a letter sent on February 13, 1898 by the Tsung Li Yamen (Foreign Office) to Sir Claude Macdonald, then British Minister to China. This note assured the British Minister that the office of Inspector General of the Chinese Maritime Customs would be held by a Britisher as long as British trade predominated in China.

According to the Maritime Customs Returns of Foreign Trade for the past year it is true that Japanese trade is greater than British, if Hongkong, which is really a transshipping point, is excluded. However, an examination of the statistics discloses an interesting point and shows that during the same period the United States imported almost as much as the total imported by Japan and Great Britain, including Hongkong.

It is also reported that another Japanese employed in the Customs Service by the name of Watanabe has been ordered transferred to Tientsin with Mr. Kishimoto. Mr. Watanabe is at present on leave in Japan. So far the Chinese Government has not countermanded the transfer of these two men. It is believed that the Chinese are trying to eliminate all Japanese employees from the head office of the Maritime Customs.

3. Espionage Case.

With reference to the press reports to the effect that a foreign naval officer had been charged with espionage (see G-2 Report No. 9017, item 6), further despatches state that the officer was French and not Italian as previously given. No attempt has been made to follow this case as it can be covered more adequately by other government agencies.

4. French Mission to Manchoukuo?

Cable advices from Paris state that it is proposed to send a French trade mission to Manchoukuo for the purpose of studying the possibilities of the development of economic relations. This may be the result of the trip of M. André d'Oliver of the French National Association for Economic Expansion (see G-2 Report No. 8797, item 2) or the recent example set by the Federated British Industries. The mission is stated to be strictly private but will "enjoy semi-official support".

The Japanese are known to be most anxious to secure French financial assistance in Manchoukuo. Not only will such investments materially aid in reconstruction and development projects for the strategic benefit of the country but they will be a possible inducement, the Japanese hope, toward the gradual diplomatic recognition of the new empire by the French Government.

5. British Defense in the Far East.

Interest continues to center around British defense plans in the Far East. Following close upon the heels of the maneuvers at Singapore (see G-2 Report No. 9017, item 5), reports from India under date of January 2nd state that twelve Hawker Hart planes from the 11th Bombing Squadron left Risalpur airdrome on the northwest frontier of India on an inter-command flight to Singapore. This flight was accompanied by one Vickers Victoria plane of the Bomber Transport Flight in India carrying baggage and equipment. The round trip will be about 7000 miles.

This flight from India to Singapore is undoubtedly linked with the recent maneuvers in the latter area, when great stress was laid upon participation of aircraft in the defense plans of the Singapore Command. This move would indicate that the war plans of the British include air reinforcement of the Singapore garrison from India.

A further sign of increased British interest in the Far East was the recent visit of Sir Maurice Hankey, Secretary of the Committee of Imperial Defense, to Australia and New Zealand. According to despatches from Melbourne, Australia intends to take immediate steps to implement the recommendations made by Sir Maurice in a report issued on January 2nd, proposing a ten-year period of reorganization. This report, among other things, criticized the differences in railway gauge existing in Australia as an obstacle to mobilization for defense.

Other recommendations in this report are said to favor restoration of compulsory military service and the fortification of Port Darwin, Newcastle and other points along the Australian coast. It is significant that mention was made of Great Britain's share in the Far Eastern defense plans, which is said to be a strong air force at Singapore and a decided increase in the naval force based on that place.

6. Italian Diplomatic Changes.

Since the recent decision of China and Italy to raise the status of their respective diplomatic missions there has been some speculation here as to the new Italian Ambassador. The new incumbent, H. E. Signor Vincenzo Lojacono, arrived in Shanghai on January 7th and is expected to proceed to Nanking about January 15th to present his credentials to Lin Sen, the Chairman of the National Government. Whether the new Ambassador will reside in Shanghai or Peiping has not been announced but it is expected that he will use the buildings now used by the Italian Legation in Peiping.

Signor Lojacono was born in 1885 and received legal training in Palermo before being appointed to the diplomatic service. He served as Charge d'Affaires in Lisbon and London prior to the World War. In the war he acquitted himself with distinction and after the Armistice was discharged with the rank of Captain to continue his diplomatic career. He has been for some time in the Foreign Office where he reached the position of Director-General of General Affairs. Since 1932 he has been Italian Ambassador to Turkey. The new Ambassador is a specialist in Italian emigration matters and has always taken an active interest in all forms of Italian economic and cultural advancement.

With the chief of mission comes the new Italian Air Attache, Captain Eurio Drago, who will relieve Colonel Lodi. Colonel Lodi is said to be returning to Italy for duty with the Headquarters of the Royal Italian Air Force. This is not the first visit of Captain Drago to China. He was here some months ago and returned to Italy with the mission headed by General P. T. Mao (see G-2 Report No. 8882, item 8).

According to Chinese officials, Premier Mussolini is well pleased with the work of the Italian air mission to China and co-ordinated effort on the part of the Italian Embassy, Captain Drago and the officers of the mission may be expected.

7. Affairs in Manchoukuo.

The controversy following the long discussion regarding the reorganization of the various Japanese agencies in Manchuria (see G-2 Report No. 9017, item 3) appears to be settling down now that the Japanese Government has issued the reorganization order. It is anticipated that the officials made surplus by the changes will be absorbed in other activities under the Japanese Ambassador or given places in the Manchoukuo Government.

There have been no recent developments in the oil monopoly situation. It has just been learned from reliable sources that the Matsukata Oil Company mentioned in the last report as being one of the three companies to handle the importing trade is an organization recently formed in Japan for distributing oil which had been purchased from the U. S. S. R.

Reports from Hsinking, which have been confirmed through local Manchu contacts, state that the Japanese are making plans for Emperor Pu Yi to visit Japan next spring. Mr. Kuranosuke Sato, Secretary to the Household Minister in Hsinking, has been in Japan to make preliminary arrangements with court officials in Tokyo.

8. China and Japan in the North.

There is apprehension in certain Chinese and foreign quarters in Peiping regarding the possibility of a change in the Japanese policy in North China. This feeling of uncertainty was not ameliorated by the recent conference of Japanese officers in Dairen which was called by the new head of the Kuantung Army and concurrent Ambassador to Manchoukuo, General Jiro Minami.

This conference lasted for two days and was attended by the wily Major-General Kenji Dohihara who heads the "Special Service Department" of the Kuantung Army; Major-General Seishiro Itagaki, the new Assistant Chief of Staff of the Kuantung Army, and Colonel Torazo Ishimoto and Colonel Kumakichi Harada who head the Second Section and Third Section respectively of that organization; Colonel Toichi Sasaki, adviser to the Hsinking Ministry of War; Colonel Seiya Giga, chief of the Japanese military mission in Shanhaikwan; Lieut. Colonel Tadashi Hanaya, "resident officer" in Tsinanfu, Shantung; Lieut. Colonel Sadaaki Kagesa, one of the assistance from the Military Attache's Office in Shanghai. It will be noted that Lieut. Colonel Shibayama was not present nor was his relief, Major Tan Takahashi. Rumors have been current that Shibayama has not been in accord with the authorities of the Kuantung Army lately and that his relief may have been due to this fact. No definite information on this point is available.

Despite the apprehension in local circles regarding a radical change of Japanese policy in North China this office believes that while some changes in method may be employed due to a change in the high command of the Kuantung Army and the arrival of Major Takahashi in Peiping, who is a more positive type than Shibayama, there will be no radical alteration of policy by the Kuantung Army in the North. Negotiations regarding the Demilitarized Zone which have been dragging may be expected to take on new life and the custom house discussions will be pushed.

Japanese Customs Houses have been established at Kupehkow, Hsifengkow and Lengkow, and will be soon opened at Chiehlingkow and Yiyuankow. The Chinese are endeavoring to establish "Customs Barriers" at points along the Great Wall where there are not regular offices. The idea of this is to prevent smuggling and divert all trade through the main passes where an accurate check of goods can be made. In this way they hope to keep track of what the Japanese are bringing into China from Manchuria.

The domestic political situation in the North remains fairly quiescent on the surface. General Ho Ying-chin, the Minister of War, arrived in Peiping on January 17th and expects to remain here for some months. General Huang Fu has made his plans to leave for the South shortly after the arrival of General Ho. The usual number of rumors are current regarding the movements of these two important figures. Reliable information from governmental sources indicates that Ho was sent to Peiping to be in charge of the situation during the absence of Huang Fu and that present plans contemplate Huang's return to North China in a few months.

On January 11th a new organization was launched in Peiping which is known as the Commission for the Preservation of Art Relics. General Huang Fu is Chairman with Mayor Yuan Liang of Peiping, General Yu Hsueh-chung and General Sung Che-yuan, Chairmen respectively of Hopei and Suiyuan, as ex officio members. The Commission will include representatives of the Ministries of the Interior, Communications, Finance, Railways and Education, and Mr. Ma Heng will represent the Palace Museum and the Commission for the Preservation of Relics.

At the present time it looks as though the new Commission will be another co-ordinating agency superimposed upon the already top heavy structure of administration in North China, and will be particularly concerned with the idea of a "Greater Peiping" as an educational and tourist center. The real reason for this new organization is believed to be an effort to counteract the growing Japanese influence in the North, but why the same result cannot be accomplished by one or more of the organizations now in existence is not clear. Reports have been heard that there is a possibility of the abolition of the Peiping Branch Political and Military Councils. If there is any truth in this, the Commission for the Preservation of Art Relics, whose membership appears to include representatives from both Councils, may take their place. This situation will be carefully watched as it may forecast important administrative changes in North China.

For and in the absence of the Military Attache:

S. V. Constant
S. V. Constant
Major, Cavalry
Assistant Military Attache

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- 1 Tientsin
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- 1 File

Compulsory Service Of State Projected By Chekiang Provinc

FEB 9 193

Special to The [illegible]

PEIPING, China — Compulsory public service is to be introduced this year in Chekiang Province which is about the size of [illegible] and has a population of 24,000,000.

The new experiment is [illegible] test the possibility [illegible] entire populace for carrying out an extensive public works program with the contribution of a few days manual labor a year from every able-bodied citizen.

All persons who have resided in Chekiang for as much as one year and are between 20 and 40 years of age will be called upon to serve from three to five days of work. Exceptions will be made in the case of soldiers, policemen and other government employees, school teachers and students.

Improvement of communications, river conservancy and afforestation are among the public enterprises on which the compulsory labor is to be employed.

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COMMENTS ON CURRENT EVENTS

January 19 - February 1, 1935

RECEIVED G/2 W. D. FEB 28 1935

1. The National Government
    - League Advisers
    - Alien Airplanes
    - Mission to Lhassa
    - Nanking-Canton Discussions
2. Sino-Japanese Relations
3. The Chahar Incident
4. The Open Door in Manchuria
5. Italian Ambassador Presents Credentials
6. China and Silver
7. Conditions in Mongolia

1. The National Government.

League Advisers.

M. Robert Haas, Chief of the Communications Section of the League of Nations, arrived in Shanghai on January 30th. His visit to China is in connection with the work of the National Economic Council, to which body he has been appointed as adviser in place of Dr. Ludwig Rajchman.

It is interesting to note that in spite of the Japanese opposition to the appointment of foreign advisers, the Nanking Government is continuing the policy of securing advice from nations other than Japan. Mr. R. Coursin, the adviser on roads, has just arrived in Nanchang from Shensi where he has been conducting an extensive inspection tour of the Northwest. Dr. Omodo, the League expert on water power, has also been making an inspection trip. His party covered the river systems in Suiyuan and Hopei. All this work is coordinated under the direction of the National Economic Council.

Alien Airplanes.

According to recent regulations promulgated by the Executive Yuan, alien planes will not be permitted to fly over Chinese territory without previous consent of the National Government. The provisional regulations provide that all foreign aircraft wishing to pass over or land in China must obtain a permit through their diplomatic representatives one month in advance. During the flight over or stop on territory under Chinese jurisdiction all planes will be subject to the direction and inspection of the proper Chinese authorities.

Other measures provide that foreign planes will not carry contraband articles and that the Chinese Government may refuse to issue the necessary permits in the event that the foreign legation concerned cannot guarantee the observance of Chinese regulations by the aircraft in question. Needless to say these regulations will be difficult to enforce and it can be predicted that the Japanese at least will pay no attention to them.

Mission to Lhassa.

General Huang Mu-sung, Special Commissioner of the National Government to Tibet (see G-2 Report No. 9005, item 1), has left Calcutta and is expected to be back in China in the near future. His report is awaited with interest by the members of the Commission for Mongolian and Tibetan Affairs, many of whom are not very optimistic regarding the results achieved. This feeling has been growing since the recent news regarding the death of one of the councillors whom Huang left in Lhassa. As previously reported there is a strong belief that his death due to a reported fall from his horse may actually have been caused by foul play as a hint to the National Government that a laissez faire policy toward Tibet would be welcomed by the Tibetan authorities.

Nanking-Canton Discussions.

No apparent progress has been made in the matter of closer cooperation between Canton and the National Government with the exception that in general a more friendly feeling has been evidenced by both sides. Hu Han-min has refused to visit Nanking and has not risen to the bait of a proposed trip abroad. Dr. Wang Chung-hui, the Chinese Judge of the International Court at The Hague who has been conducting conferences with Hu, has returned to Shanghai from Nanking but is noncommittal regarding further visits to the South.

One of the main differences of opinion between the two factions is the question of Sino-Japanese relations. The Cantonese faction, being further from the overhanging sword of the Japanese Kuantung Army, is naturally inclined to a stronger anti-Japanese policy than is possible for Nanking to assume at this time. The majority of the Chinese leaders realize that it would be futile as well as fatal to come to an open break with the Japanese at this time and that their only hope, until China becomes economically stronger and militarily better prepared, is to rely on a policy of passive resistance and oppose the Japanese at every step without actually bringing matters to a show-down.

2. Sino-Japanese Relations.

Many reports have been heard regarding a radical change in the attitude of Japan towards China, and while to some it may seem that recent events predict such a change it is believed that the Japanese are but continuing their former policy with a slightly different approach. It will be remembered that following the Tangku Truce the Japanese resorted to what was termed by the Chinese the "three point attack" in her relations with China (see G-2 Report No. 8689, item 1).

The first object of Japanese pressure was the Chinese Minister in Tokyo, General Chiang Tso-pin, which may be passed over as relatively unimportant. The second was the force applied to Chinese officials at Shanghai and Nanking, and the third the efforts directed against Huang Fu and other dignitaries in North China. So the Japanese mice have continued to gnaw at China with the Chinese governmental cat endeavoring to prevent each invasion of its larder. Sometimes the main effort of the Japanese has been in the North and sometimes in the South at the heart of the National Government, as when their tariff demands forced the resignation of T. V. Soong, the outstanding advocate of a strong policy of resistance to Japanese aggression. While the Japanese pressure at Nanking has received less publicity by mutual consent than have their actions in North China, it has nevertheless been very apparent to Chinese officials.

Recently the negotiations in North China, which finally resulted in the resumption of through railway traffic between Peiping and Mukden and the postal agreement of last month for transmission of mail, have necessitated more action by the Japanese in North China. Now with the departure of General Huang Fu and the difficulties of negotiating with General Ho Ying-chin, Minister of War, who is looking after affairs in the North during Huang's absence, the Japanese appear to have decided to aim their main effort at Nanking direct.

Reliable information tends to confirm the reports regarding certain proposals submitted to the Chinese Government by the Japanese, which were the subject of at least one secret conference in Nanking (see G-2 Report No. 9005, item 1). These proposals are said to include measures of Sino-Japanese co-operation in military and economic matters.

Definite information regarding these proposals and the attitude of the Chinese is of course lacking, but it is believed that the Chinese have as yet refused to agree to Japanese "suggestions". It is also believed that in the matter of economic cooperation there was mention of a loan to the Chinese Government by the Japanese and herein lies grave danger for China. As long as it is possible for the Nanking Government to exist financially, it is considered very unlikely that such a loan would be considered. However, should the Government ever find itself unable to meet its obligations, it is barely possible that it might accept this loan knowing that its fate is sealed in any event and hoping to maintain its hold on the country by force fed with the Japanese money. This office does not see indications of this condition at present, but it is a possibility should financial conditions become extreme.

In this connection the recent press reports from Japan are interesting and carry headlines concerning a possible new policy toward China to be instituted by Mr. Koki Hirota, the Minister of Foreign Affairs. The "Osaka Mainichi" carries a detailed plan prepared by its political correspondent in which Japan might be expected to give every aid to China in a "New Deal" plan should China withdraw from the League, dismiss foreign advisers and enter a Japan-China-Manchoukuo bloc. This in connection with the Sino-Japanese discussions at Nanking may forecast some radical change of Japanese policy toward China which some sources claim to be in the offing.

Should there be any acceptance by China of any such proposals or demands, they would have to be enforced by a stronger hand than exists in China to-day. It is considered certain that indications of surrender to Japan on the part of Nanking would mean the downfall of the present regime - the only real hope of a unified China that the country has seen since the fall of the Manchu Dynasty.

While the majority of the thinking Chinese people would be violently opposed to any form of cooperation with Japan, there is a small group which contends that the League has done but little for China save making promises. They call attention to the fact that the principal foreign powers including the United States have done nothing effective to aid China against Japanese aggression. This pro-Japanese group at Nanking is advising a surrender to the Japanese to avoid what is claimed would be a grave disaster should Chinese resistance continue.

3. The Chahar Incident.

Judging from foreign press despatches, the recent Chahar boundary incident has caused more of a sensation abroad than in China. On the 19th of January a force of Japanese and Manchoukuo troops advanced into the area to the north and east of Tushihkow on the Great Wall. This particular area had been under dispute for some time following the declaration of the Japanese that the Great Wall constituted the boundary of Manchoukuo. A clash with the Chinese local Defense Corps (police) resulted in casualties on both sides, the details of which are covered in full in G-2 Report No. 9035. Negotiations are now under way for the settlement of this boundary dispute, but again it is evident that the Japanese are drawing their own boundary lines for Manchoukuo (see G-2 Report No. 8749). The Japanese official maps of Manchoukuo show certain dominant terrain features as a part of the newly created state and military action is proceeding to secure them.

In addition to this reason for the Chahar incident it is considered very likely that the Japanese wished to make a gesture which would exert pressure in their negotiations with the Nanking Government, previously mentioned in this report. Another reason for the action of the Kuantung Army just at this time may have been its desire to make a show while the military demands in the budget were being considered in Tokyo.

This office believes that no further military action except as noted above may be expected by the Japanese in Chahar as there are more pressing problems for the Kuantung Army in Manchuria.

4. The Open Door in Manchuria.

Following close on the heels of the restrictions on the import of oil and the limiting of the amount allowed to be imported which has been allocated to three foreign firms (see G-2 Report No. 9017, item 8, and No. 9029, item 7), comes a report from Mukden that business for foreign firms is very dull. This information emanates from Japanese sources which state that this is due to the remarkable advancement of Japanese merchants and the unfavorable exchange rate.

It is known that the majority of German firms closed their Mukden offices last year and that since the first of January 1935 three British and five American business enterprises in Mukden have shut down. Despite the statements of the Japanese noted above, it is becoming increasingly evident that the "Open Door" in Manchuria is open for all that choose to go out.

5. Italian Ambassador Presents Credentials.

H. E. Signor Vincenzo Lojacono, first Italian Ambassador to China, presented his credentials to Mr. Lin Sen, Chairman of the National Government, on January 28th. In the course of his remarks he made reference to the fact that since the remote ages and while darkness hovered above the rest of humanity, two great civilizations, Italian and Chinese, were shining and were trying to meet each other through the immensity of the continents. In true Italian style he went on to say, "The collaboration between our countries comes to develop itself in an historical cycle common to both of them, since Italy rejuvenated by a spiritual revolution and guided by a great leader finds a similar spiritual movement and a similar imprint of men of genius devoted to the reconstruction of the New China."

Mr. Lin Sen in reply stated that he had always admired the courage and energy of the Italian people who had succeeded in bringing about the welding of the two great civilizations of the Orient and the Occident.

Just prior to Signor Lojacono's arrival in Nanking to present his credentials to the National Government, cable advices from Rome stated that Mr. Liu Wen-tao, the newly appointed Chinese Ambassador to Rome, had arrived in Italy. He was received in audience by King Victor Emmanuel to whom he presented his credentials.

6. China and Silver.

If the devaluation of the American dollar was done with any hope of increasing American trade with China, many American business and professional men in this part of the world feel that the desired results are not being obtained. China was not subject to the effects of the world wide depression until the winter of 1931-32 due largely to the fact that the price of silver was falling as the price of gold was rising. A rising price level was the result and China maintained a favorable trade balance.

Since the beginning of 1932, however, China has shown an unfavorable trade balance, with falling prices and accumulation of silver in Shanghai. Then came the silver purchasing policy of the United States causing the export of a large amount of silver. Even after the Chinese Government prohibited this export, large amounts were smuggled out because of the high price obtainable elsewhere. Prices in China have fallen from twenty to twenty-five per cent and the value of farm lands in fifteen provinces investigated have dropped some twenty per cent.

With the smuggling out of silver and the decreased stocks available there is naturally no great effort made to trade with the United States as the payment of these resulting bills would cause a further transfer of silver out of China. It would therefore appear to well informed Americans engaged in earning their living in China that the present policy of the United States in the purchase of silver is resulting in increasing the existing contraction of credit and in the general business stagnation of China.

7. Conditions in Mongolia.

After the elapse of many months and the making of many promises the National Government has been able to effect a slight improvement in the relations with the Mongols. There is every indication that Chiang Kai-shek himself desires to do more but his control over the administrative organs of Chahar and Suiyuan is of necessity loose and he has to depend upon the governors of those provinces. These individuals do as little or as much as they please, being careful not to do too little but resorting to the great Chinese weapon of delay to render Nanking's actions ineffective.

Conditions in Suiyuan Province are particularly difficult for the Mongols. The Governor, General Fu Tso-yi, has always been opposed to the Mongolian Autonomy Council and has tried to put obstacles in its way from the start. The main point of discussion is with reference to the tax on opium which comes into Suiyuan and Shansi from Kansu and Ninghsia. Reliable Mongol sources put this as amounting to ten million dollars silver last year. The camel trains carrying opium pass almost entirely through Mongol territory but only pay taxes to Suiyuan where they enter China proper. The Mongols claim that as they protect the camel trains, they are entitled to some compensation, since the camel pullers choose Mongol trails to avoid Chinese bandits.

It is definitely known that the National Government representatives in Kweihwa are backing the Mongols in their demand that they receive fifteen cents of the thirty-eight cent tax on every ounce of opium coming into Suiyuan. General Fu Tso-yi, who is practically controlled by Yen Hsi-shan of Shansi, is offering them but ten cents. The Mongols are heartened by the fact that Nanking's officials are supporting them and the discussion which has been going on for over a month has still not reached a compromise.

In Chahar the situation is better. There is not the enormous opium traffic in that province but there is a goodly trade growing between Kalgan and Urga under the sponsorship of the German-Chinese Company, Te-Hua Kung Ssu. This organization which has Soviet financial backing despite its Germanic title is now operating large trains of camels and considerable motor traffic on the Urga road. All cargoes are unloaded at the border and are transhipped to a different set of camels and motors, as the Soviets do not desire the natives of Outer Mongolia to be contaminated by the liberal ideas of the Chinese and Inner Mongolians.

Some months ago the Mongols were receiving no revenue from this company though it operated almost entirely through their territory. The Suiyuan provincial authorities retained all this money and refused to give up any of it. Te Wang (Prince Teh) ordered the seizure of camels and automobiles and quite a large number were held up for about a month and were prevented from crossing Inner Mongolia. The Te-Hua Company then took up the matter with General Sung Che-yuan, Governor of Suiyuan, with the result that a portion of the tax is now remitted to the Mongols, and the camels and motors of the Te-Hua Kung Ssu are again moving across the Mongolian plains.

The affairs of the Mongolian Autonomy Council are proceeding slowly. The present plan is to call a meeting of the Princes after the Lunar New Year which comes early in February. The question of the continued use of the temple group at Pailingmiao will then be discussed as will the plans for the building of a better home for the Government a few miles north of that place. Te Wang appears to be getting stronger in Mongolian affairs and the former opposition of some of the older Princes to his leadership is waning. His position as Secretary of the Council has necessitated his having considerable power and he has not abused it. Te Wang is a Mongol of exceptional ability and has had enough Chinese education and association with the Chinese to be able to think with them without losing his independence of thought as a Mongol.

For and in the absence of the Military Attache:

S. V. Constant
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COMMENTS ON CURRENT EVENTS

February 2--15, 1935

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1. The National Government -
   Promotion of Education
   Mission to Lhassa
   Press Censorship
2. Canton Military Mission
3. Foreign Journalists Inspect
4. Chinese Interest in the Philippines
5. The Singapore Base
6. Manchuria Daily News
7. Mongolian Affairs
8. Sino-Japanese Relations
9. The Chinese Eastern Railway

1. The National Government.

Promotion of Education.

The Department of Education has issued instructions to the Mongolian and Tibetan Education Department to work out plans for the promotion of education among the people of the frontier provinces. The plan is to provide for the establishment of public and normal schools in the provinces of Chahar, Suiyuan, Ninghsia, Chinghai, Kansu, Sikang and Yunnan. Estimates of the cost of this project have been made and the authorities of the Department of Education have petitioned the Central Government for the required funds.

This proposed measure is the largest single educational scheme which the Department of Education has attempted and will be a difficult one. It is in line with the policy of the National Government and should greatly assist in coordinating the training of young China. The establishment of these schools in the border provinces of the country will assist materially in keeping the minds of the people in touch with Nanking and by the judicious use of propaganda and educational material will help toward a more unified China.

Mission to Lhassa.

General Huang Mu-sung, Special Commissioner of the National Government to Tibet (see G-2 Report No. 9036, item 1), who sailed from Calcutta some days ago, has arrived in Canton. He plans to spend a few days there before sailing for Nanking to present his report to the Central Government.

Huang's mission to Tibet was for the avowed purpose of offering sacrifices before the remains of the late Dalai Lama and to better the relations between the authorities in Lhassa and those in Nanking. Actually Huang was sent to make a detailed investigation of conditions in Lhassa and to report upon the possibility of extending closer Chinese control over the land of the Lamas. Interviewed in Canton, he stated that he was favorably impressed by the friendly attitude of the Tibetans toward the Chinese. Private sources in contact with the business of the

Mongolian and Tibetan Commission in Nanking state that indications are just the opposite and that when Huang reaches Nanking he will paint an entirely different picture of conditions in Tibet which will not be for publication.

Even to the most optimistic it is hard to see how Nanking could expect to find the authorities in Lhassa favorably inclined to accept the dictates of the Central Government. Traditionally independent, the Tibetans are believed to wish to remain that way and to have no interest in Nanking's proposals for a change.

Press Censorship.

Some weeks ago several of the large Chinese papers such as the "Ta Kung Pao" of Tientsin, and various journalistic societies including the Association of Daily Newspapers and the Press Union of Shanghai, all protested to the Central Executive Committee regarding the methods of Chinese news censorship. Little was expected from their protests and no little surprise was caused when a resolution which is of interest to all news agencies was passed by the Standing Committee of the Central Executive Committee.

This regulation was to the effect that with the exception of those having to do with military or diplomatic secrets and those detrimental to the policies of the Kuomintang Party and Government or contradictory to the San Min Chu I (Three Principles of the People), all news or press opinions pertaining to the execution of Party and Government plans may be published freely, if based on facts and without malice. Of course the difficulty in the application of this law will be its interpretation. The deciding factor will still be the officials who decide what is and what is not permissible of publication.

In China the usual method is to shut down the paper after the publication of prohibited material, be it truth or fiction, rather than to insure that proper news gets into the papers. Recently, however, the National Government is making some progress in this regard and is employing reputable writers who prepare articles and news items for the press as well as for radio broadcasting from Nanking. This broadcasting is done in the "Kuo Yu", really the Northern dialect, and is becoming quite a feature in China.

2. Canton Military Mission.

A military mission from Canton headed by General Lin Shih-ching, Commander of Gendarmes in Kwangtung Province, and General Tu Yi-chien, Vice-President of the Canton Military Academy, sailed for Europe the latter part of January. The announced purpose of this mission is to study methods of foreign military education, and so far as is known there is no local political situation in Canton which would lead to the belief that the trip had been arranged for any other reason than that stated.

The mission intends to visit Italy, France, Great Britain and Germany. No statement has been made as to whether or not the itinerary will be arranged so as to include the United States.

3. Foreign Journalists Inspect.

The advantages of publicity are being appreciated more and more in China as was shown by the recent move of Chiang Kai-shek the latter part of January in arranging for an inspection trip of a party of foreign journalists to various parts of Kiangsi. The group included twenty-three newspaper men representing the various foreign papers and news agencies using the English, French, German, Italian, Russian and Japanese languages.

The purpose of the journey was to give the press an opportunity to secure first hand information regarding the condition of the districts in Kiangsi recently recovered from the various communist-bandit elements and to see the government plans for reconstruction of the area in actual operation. The party visited Kiukiang, Nanchang, Nanchen, Hsifengcheng and other places in the vicinity and were entertained by officials at each stop as well as being shown the rehabilitation measures instituted by the local officials under the direction of National Government representatives.

4. Chinese Interest in the Philippines.

A Chinese educational mission has just returned from a visit to the Philippine Islands and has submitted its report dealing mainly with commercial conditions in the Islands and the possibilities of Sino-Philippine trade. According to the report there are at present some 100,000 Chinese in the Philippines. The greatest number of these come from Canton with Fukien ranking second.

The total value of export trade of these Chinese is stated to approximate $1,600,000 silver and import trade to be about $10,000,000 silver. The report hopes for the sending of better trained commercial representatives to the Islands and suggests that close cooperation be maintained between the Philippines and China.

Chinese official circles frequently mention the present policy of the United States with regard to Philippine independence and look with apprehension to the day when the American flag ceases to fly in the Philippine Islands. They can see nothing but occupation by Japan and the forging of another link in the Island Empire which now stretches practically from one end of China's coast line to the other. From talking with a great number of Chinese in all walks of life there is no doubt but that they believe that the United States intends to get completely out of Far Eastern affairs and there is widespread regret expressed at what appears to be the present American policy.

News has just been received that an economic mission from Shanghai will sail for Manila on February 20th. This delegation is stated to be visiting the Islands for the purpose of promoting closer commercial relations between China and the Philippines. According to information from Shanghai, the mission will be headed by Dr. C. T. Wang, former Minister of Foreign Affairs, and will include among its important members Dr. Herman Liu, President of Shanghai University; Mr. Pan Kung-chen, Director of Education of Greater Shanghai; Mr. Lin Kang-hou, Secretary of the Chinese Bankers' Association.

5. The Singapore Base.

Reports from Singapore indicate that the fortification work in that area is being pushed to completion. Mount Faber, one of the highest points on the island, is closed to the public during the erection of military defense works there.

Despatches from London state that in addition to the flight of planes from India (see G-2 Report No. 9029, item 5), four flying boats for the 205th Squadron at Singapore, which is to be re-equipped, left Pembroke Dockyard on January 15th for Singapore, a distance of some 8,000 miles. The flight was manned by personnel from the 210th Squadron and is under the command of Squadron Leader A. F. Lang. This is stated to be the first time that an overseas squadron has been re-equipped by air. The flight plans to remain four days at Basra and five at Karachi, from where they fly across India to Chittagong, a distance of 1,550 miles. Stops will be made in India at various places where special moorings have been laid on waterways.

There is every indication that the British are wasting no time in the strengthening of the defenses of Singapore. It is also evident that the use of airplanes will play an important part in the defense plans of the Singapore base, with the possibility of air reinforcement from India.

6. Manchuria Daily News.

George W. Gorman, who has been Editor of the Manchuria Daily News for the past two years, has announced his intention of giving up his active connection with that paper. Mr. Gorman accepted the position during a period of reorganization of the publication and having stayed as editor for an additional year now states that he wishes to carry on "important and pressing personal work."

Mr. Gorman will be remembered as having been editor of the North China Standard in Peiping some years ago. This was a Japanese owned paper published in English. From the Japanese point of view, Mr. Gorman has been very successful in presenting to the foreigner the Japanese case in the Far East. Mr. Gorman's writings have been so obviously propaganda material that for some years they have not been taken seriously in this part of the world.

With the departure of Mr. Gorman the only Westerner on the Manchuria Daily News will be Mr. Timothy O'Neil Lane, also British, formerly a newspaper man in Shanghai. The president of the corporation, Lieutenant General Y. Takayanagi, will take on the work as editor in addition to his other duties.

7. Mongolian Affairs.

Relations between the National Government and the Mongols continue to improve slightly. The thirty thousand dollars silver promised by Nanking to help defray the expenses of the Mongolian Autonomy Council is now being remitted to Pailingmiao and much better feeling is evidenced. The fact that the National Government officials are backing the Mongols in their demands upon the Suiyuan Government for a larger share of the opium tax (see G-2 Report No. 9036, item 7) has also helped.

Under the leadership of Te Wang, the able Secretary of the Autonomy Council, the Mongols are playing a new game which is rather unique. Since the refusal of the Suiyuan authorities to meet their demands for fifteen cents of the thirty-five cent tax on every ounce of opium, the Mongols established their own tax bureau in one of the outlying Banners on the camel route and collected it themselves. Thereupon, Fu Tso-yi, the Suiyuan Chairman, sent ten trucks of soldiers to arrest the six tax collectors. The Banner Prince appealed to Te Wang and Te Wang went to the Suiyuan authorities and told them that he was sending reinforcements to protect his men. Te Wang also said that if Fu Tso-yi wanted to fight he was ready to defend his rights and that he would continue to send reinforcements of Mongol cavalry until the Suiyuan troops withdrew.

The Suiyuan authorities saved their face in some manner, the details of which are not clear, but it is known that the ten trucks of troops came back to Kweihwa. In the meantime, Te had received delegates from Chahar Province. These stated that they had heard of the difficulties with the Suiyuan authorities and that they would be glad to come to terms with the Mongols if they would arrange to route the opium through Kalgan instead of Kweihwa! Information from Mongol sources is to the effect that no agreement has been made with the Chahar people because of the great trouble it would cause with Fu Tso-yi and Yen Hsi-shan, but that Te Wang is using the Chahar offer to make the Suiyuan officials come to terms.

Te Wang realizes his position of advantage and is trying to play the provincial authorities in Chahar and Suiyuan against each other and the National Government. Then he always has the threat of Japan to hold over the head of Nanking and hints just enough at the idea of joining Manchoukuo to keep the Central Government on tenter-hooks.

This office believes that Te Wang is sincere in his efforts to secure real autonomy for Mongolia and that he will use every means in his power to that end. It is not believed that he has any idea of joining with Manchoukuo. It is known he realizes that Japan is militarily able to take over Inner Mongolia at any time and he is trying to make something real out of Mongolian autonomy so as to have a bargaining point with Japan should the need arise which will prevent the Mongols of Inner Mongolia from becoming vassals of Japan as are the Mongols of Manchuria to-day.

8. Sino-Japanese Relations.

The Japanese efforts directed at Nanking for the purpose of securing better "cooperation" with the Chinese Government continue (see G-2 Report No. 9036, item 2). Confidential information received from Chinese officials high in the National Government is to the effect that the Japanese are exerting great pressure to obtain a basis upon which they can be assured of greater cooperation on the part of Chinese officials.

The Japanese proposals have been previously touched upon and include Japanese assistance to China in military and economic matters, including certain loan agreements. Many rumors as to the exact desires of the Japanese are available but no authentic information concerning the details can be secured.

What is offered by the Japanese under the guise of cooperation is feared by the Chinese as potential measures leading to Japanese domination in Chinese affairs. As far as is known the Chinese have not yet agreed to the Japanese demands but it is difficult to see how they will be able to avoid accepting at least some of them. This phase of Sino-Japanese negotiations is being carried on mainly by civil officials and it is only recently that General Doihara, the "bird of ill omen for China", has come down from Manchuria presumably to take part in the affair.

It is believed that the action of the Kuantung Army in Chahar (see G-2 Report No. 9036, item 3) may have embarrassed the officials conducting the negotiations with the Nanking Government and that a little more coordination of effort might have produced better results. While the Japanese are in a position to force their demands upon China it is thought that they wish at this time to secure their aims by other means. So the Chahar incident,now definitely settled by a recent conference at Tatan, may easily have made the Chinese Government more fearful of the intentions and proposals under discussion between the civilian elements at Nanking and to have retarded the conferences rather than hastened them, as the Kuantung Army hoped.

An interesting sidelight on the matter has been the visit of General Doihara to North China. While here he was wined and dined by the local officials and the representatives of the National Government including General Ho Ying-chin, the Minister of War. At all these functions Doihara was unusually friendly in his expressions regarding conditions in North China and the Japanese state that they are very much pleased over the cordial reception given to the General in contrast to that accorded him on his previous trip some months ago. It is interesting to note that while General Doihara has been visiting Peiping every spring for the past few years, this is the first time that his trips have been given publicity as other than personal visits. This time, however, Major Takahashi, the Japanese Military Attache in Peiping stated to Chinese newspaper men that the General's visit was for the purpose of inspecting conditions in North China.

Doihara left Peiping on February 9th after spending four days there. He stopped in Tientsin for three days and then went to Shanghai by steamer. After visiting there he plans to proceed to Nanking, according to Japanese sources.

It will be interesting to see the effect of Doihara's visit to Nanking upon the negotiations now in progress between the Japanese and the Nanking Government. It may be that he wishes to keep a closer eye upon the activities of the Japanese diplomatic officials and it may be that the Kuantung Army feels the necessity for a stronger hand at the helm than the Japanese diplomats are able to put forth.

The outstanding questions regarding the Demilitarized Zone appear to be reaching a satisfactory conclusion. Here also there is evidence of better feeling on both sides. During the past few days there have been conferences in Peiping and Tientsin at which it is stated that an agreement was reached to have a Peace Preservation Corps of five thousand men and a police force of a thousand in the Zone. These discussions were participated in by the following:

Mr. Yin Tung, Managing Director of the Peiping-Liaoning Railway and unofficial diplomatic representative of Nanking.
Mr. Yin Ju-keng, Special Administrator for the Chihsien-Miyun area.
Mr. Chu Shih-chin, member of the Peiping Branch Military Council.
Mr. Tao Shang-ming, Special Administrator of the Luantung area.
Colonel S. Giga, special representative of the Kuantung Army at Shanhaikwan.
Mr. Tanaka, Japanese Consul at Tientsin.
Major T. Takahashi, Japanese (Assistant) Military Attache at Peiping.

These conversations apparently brought up to date the material discussed between the Chinese and Japanese prior to the departure of Colonel Shibayama, and it is understood that Major Takahashi will leave soon for Hsinking to secure the final approval of General Minami, the Commander of the Kuantung Army, regarding the details of the final settlement of many questions regarding the Demilitarized Zone which have been hanging fire for some months.

9. The Chinese Eastern Railway.

Information from Manchuria states that an agreement on the terms of the sale of the Chinese Eastern Railway was finally reached between the Japanese and Soviet representatives on January 22nd. This brings to a close the bickering and mud slinging proceedings which have been passing for negotiations during the past year and a half. These negotiations alone would furnish ample material for an interesting thesis on oriental psychology.

Japanese sources report that the text of the final agreement will be drafted by a committee composed of M. Benedict and I. Kozlovsky for the Soviet side, Mr. Ohashi, Vice-Minister of Foreign Affairs, for Manchoukuo, and Mr. Nishi, Chief of the First Section of the Tokyo Eurasian Affairs Bureau, who will represent Japan. The purely negative part that "Manchoukuo" plays in the matter may be estimated by the announcement in the Japanese press of the "successful conclusion of the conversations between Mr. Kozlovsky and Mr. S. Togo, Director of the Bureau of Eurasian Affairs of the Japanese Foreign Office," neither of whom represent Manchoukuo.

It is understood that when the C.E.R. is finally turned over by the Russians it will be given to the South Manchuria Railway for management and operation and that prior to this the S.M.R. will be reorganized. This reorganization is stated to be intended to limit its activities strictly to railway matters but no confirmation of this can be secured. In the past of course the S.M.R. Company has been the spearhead of Japanese expansion into Manchuria and its activities have reached into every crevice of the Railway Zone territory more as a vast colonization project than a railway corporation.

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Office of the Military Attache, American Legation, Peiping, China, February 15, 1935 - To: Chief, Military Intelligence Division, Washington, D.C.

Approved.

W. S. Drysdale

W. S. Drysdale
Lieutenant- Colonel, Infantry
Military Attache

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COMMENTS ON CURRENT EVENTS

February 16—March 1, 1935

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   - League Adviser
   - International Pact Ratified
   - Minister to Turkey
2. Chinese to Moscow
3. Sino-Swedish Expedition
4. Government Monetary Policy
5. Sino-Japanese Relations
6. Japanese Military Officers
7. News from Inner Mongolia
8. American Minister Returns

1. The National Government.

New Customs Head.

Mr. Loy Chang (Cheng Lai) has been appointed Director of the Customs Administration. Mr. Chang was born in Hawaii and is a graduate of Harvard University. He has been connected for some time with the Ministry of Finance and his most recent work has been in connection with the National Lotteries. Mr. Chang has an excellent administrative record and is known to be very pro-American.

League Adviser.

Mr. C. T. Coode, one of the conservancy experts from the League of Nations, has arrived in Tientsin. He is accompanied by Mr. Hsu Shih-ta, the technical expert of the North China River Conservancy Commission. Since his arrival in Tientsin he has consulted with various members of the North China River Conservancy Commission regarding conservancy work on the Yungting River.

The trip of Mr. Coode and the recent inspections of Mr. Coursin and Dr. Omedo (see G-2 Report No. 9036, item 1) are indicative of the excellent planning being done under the direction of the National Economic Council. Not only will the work of the Council assist in much needed river conservancy, road construction and other work, but it gives the local officials and the people in various parts of China some concrete evidence that the Nanking Government is interested in their problems.

International Pact Ratified.

At a recent meeting of the Legislative Yuan a resolution was adopted ratifying the International Radio and Telegraph Convention with reservations. These reservations state that no foreign country or individual, including the foreign legations, shall have the right to install or operate telegraph or radio equipment in foreign concessions, settlements, leased territory or railway zones, without the permission of the Chinese Government.

The last two locations mentioned are no doubt put in for the purpose of calling attention again to the fact that the Kuantung Leased Territory and the South Manchuria Railway Zone are still considered Chinese territory by the Nanking Government.

So far as is known permission has not been secured in the past for the installation of radio equipment by the various foreign legations in China. Representatives of the Japanese Army in Peiping have stated that they will pay no attention to this ruling as their establishments are moved according to military necessity.

Minister to Turkey.

General Ho Yueh-tsu, the newly appointed Minister to Turkey, has announced that he will leave for his new post on the Italian liner "Conte Rosso" which sails from Shanghai on March 11th. General Ho is a native of Ningsiang, Hunan, and is forty-six years old. He is a graduate of the Tokyo General Staff School and has served in various important positions such as Commander of the 3rd Army, Vice-Chief of the General Staff, and head of the Military Affairs Department of General Headquarters under Chiang Kai-shek. No reason is known for his retirement from active military life but it is said that his new appointment is by way of a rest and a reward for past service.

2. Chinese to Moscow.

Dr. W. W. Yen, Chinese Ambassador to Russia who has been visiting here for some months, is returning to Moscow. For some months it has been known that Dr. Yen has been adverse to going back to Russia because of the present policies of the Nanking Foreign Office. Just what assurances were given to him are unknown but it is thought that he intends to take over the work in Moscow on a more permanent basis than previously. The large house in the British Concession of Tientsin owned by Dr. Yen has been closed indefinitely.

Dr. Yen sailed from Shanghai February 21st on a Russian steamer chartered by the Soviet Government. He will go to Vladivostock and thence to Moscow by the Trans-Siberian Railway. On the same steamer are Mei Lan-fang, the famous female impersonator, and his theatrical troupe, who are going to Russia on the invitation of the Soviet Government.

Fellow passengers will also include the Chinese delegates to the International Motion Picture Exhibition to be held in Moscow. These are Miss "Butterfly Wu" of the Star Motion Picture Company, Mr. Tao Po-hsun of the United Photoplay Service, and Mr. Chou Chien-yun.

3. Sino-Swedish Expedition.

Dr. Sven Hedin, leader of the Sino-Swedish Expedition (see G-2 Report No. 8976, item 3), has arrived in Nanking. It will be remembered that Dr. Hedin left Peiping with his party in October 1933 and has been in the Northwest ever since looking for possible motor roads between that vast undeveloped area and the coast. Accompanied by four Chinese and financially subsidized by the National Government, the expedition is expected to report upon the political conditions in Kansu and Hsinkiang as well as upon the transportation prospects in those provinces.

In recognition of the services of Dr. Hedin, the National Government has conferred upon him the Order of the Brilliant Jade. While in Nanking recently the famous explorer celebrated his 70th birthday. He is expected to return to Peiping in a few weeks and later will return to Sweden.

4. Government Monetary Policy.

Occasional rumors are still heard to the effect that the National Government is contemplating devaluation of the Chinese dollar. Persons in financial circles close to government leaders state that despite the denials of the Ministry of Finance discussions have been held in official circles concerning certain reforms in China's monetary and currency systems. They believe, however, that attempted devaluation of the dollar by government action is not likely due to the impossibility of enforcement due to peculiar banking conditions existing in China and the enormous personal fortunes kept in silver which never pass through the banks.

Under the leadership of Dr. H. H. Kung (Kung Hsiang-hsi), the Minister of Finance, a Monetary Advisory Committee has been formed. This board is stated to be chiefly concerned for the moment with the following:

1. Gradual and constructive steps for the improvement of China's currency situation.
2. Steps for stabilizing the exchange market.
3. Measures for bringing about China's balance of international payments.
4. Steps to be taken which may result in the improvement or the financing of China's home industry.

An effort is being made by the Ministry of Finance to restrict the right of banks to issue notes and a petition has been made to the Executive Yuan covering this point. In the past the individual banks have issued notes backed only by their own resources and this practice has been the cause of the failure of many of these smaller institutions.

It will be difficult to change the banking system of China which has been in vogue for hundreds of years. Even the larger of the Chinese banks while adopting modern methods on the surface still retain the old system for actual operation. The head of one of the largest Chinese banks in Peiping admits that they keep a few foreign trained men and typewriters to "dress the show window" but would not allow them to have anything to do with the policies or administration of the bank.

5. Sino-Japanese Relations.

The outstanding event in the field of Sino-Japanese relations during the past two weeks has been the expression of confidence in Chiang Kai-shek made by Mr. Koki Hirota, the Japanese Minister of Foreign Affairs. In speaking at the Lower House committee meeting on February 21st, Mr. Hirota stated that he means to "repose full confidence in Chiang Kai-shek in order to lay down foundations for permanent friendship between Japan and China".

The Foreign Minister also said, according to Japanese sources, "During the one and a half years since I was appointed Minister of Foreign Affairs, I have been under the forcible impression that Sino-Japanese relations should not be left as at present.... I firmly believe that the present is the most opportune time to carry out my cherished convictions. If the present chance is lost, no chance may likely be offered again. As the grandest work of my life, I am determined to cultivate by all means friendship between Japan and China.... I am ready to repose my full confidence in Chiang Kai-shek."

Should the Japanese live up to the statement of Mr. Hirota it will be a radical change of policy. In the past they have endeavored by fair means or foul to weaken the power and efficacy of the Nanking Government in general and Chiang Kai-shek in particular. They have consistently dealt with local leaders and have often supported them, financially and otherwise, in acting against the Central Government. It is believed that the statements of Mr. Hirota are in line with the present Japanese efforts at Nanking to secure "cooperation" with China (see G-2 Report No. 9051, item 8).

Conferences are still taking place at Nanking and the visit of Dr. Wang Chung-hui to Tokyo is considered to have some connection with these discussions. Many rumors are available regarding the subjects discussed and the Japanese proposals but reliable information is still lacking. One interesting report in connection with the offer of the Japanese to co-operate financially is the rumor of Japanese effort to link the Chinese dollar with the Japanese yen.

This office has received confidential information from a high governmental source to the effect that the Japanese are still pressing the Chinese very hard in an effort to secure certain Japanese desires with respect to China, but exactly what these are still remains uncertain. So far the Chinese have succeeded in the discussions at Nanking by their characteristic policy of passive resistence but it is considered that they will have to yield on at least some of the Japanese demands to avoid an open rupture of relations with the possible application of force by the Kuantung Army. While this office continues in its belief that the Japanese do not wish to extend their military occupation further into China than the Great Wall at this time, yet their veiled threats and lack of coordination between the diplomatic officials and the military leaders of the Kuantung garrison are a constant worry to the Chinese and a vital factor in Far Eastern affairs.

6. Japanese Military Officers.

With the approach of spring there are the usual number of Japanese military officials making trips to China. It is interesting to note that this year these parties are being given greater publicity than usual and are being treated with more courtesy than in the past. An example of this has been the visit of Major-General Kenji Doihara (see G-2 Report No. 9051, item 8) at whose door the Chinese lay the Mukden and other incidents. Here is one man for whom the Chinese certainly have no love and yet his recent trip to North China was almost a goodwill tour in many respects. He was entertained extensively by Chinese officials wherever he went and his attitude was quite different than usually manifested toward the Chinese. Doihara was accompanied by Lieut. Colonel S. Kusumoto, who was a language student and Assistant Military Attache in Peiping in 1926-1927. He later served in the Russian section of the General Staff in Tokyo and has been recently stationed in Nanking and Shanghai. His last assignment was with the War Office. Doihara left Shanghai for Hongkong and Canton on February 26th, intending to spend about two weeks in the South after which he and Kusumoto will return to Tokyo by way of Formosa.

Another visitor to North China has been Lieutenant-General R. Isogai, Chief of the Second Section of the Japanese General Staff. He was followed by a party of six other officers under Colonels Matsui and Okada who have been travelling in southern Suiyuan and Shansi, covering much the same territory as did a similar party last year.

Japanese sources state that Major-General Hamada, the Commander of the Port Arthur Fortified Zone, will soon arrive in North China for the purpose of visiting the famous places and to pay friendly calls on the Chinese officials. So far as is known this is his first visit to this part of the country.

All these inspection tours by Japanese officers would appear to be the usual spring reconnaissance trips to various important areas in North China which the Japanese military have been making for some years. It is not believed that the Kuantung Army plans any immediate operations in North China but it is only natural for the officers of any military force to take opportunities for reconnaissance of adjacent territory over which they may at some future time have to move and fight. Despite the natural alarm in some Chinese circles it is believed that these trips by Japanese officers are in line with their usual policy, with the exception of the inspection tour of General Doihara which is thought to be tied closely with the present Sino-Japanese discussions in Nanking.

7. News from Inner Mongolia.

Despite reports to the contrary it would seem that the Mongols are remaining adamant in their stand regarding the tax collection question (see G-2 Report No. 9051, item 7). Chinese sources state that the Mongols are willing to modify their attitude but reliable Mongol sources close to Te Wang, the Secretary of the Mongolian Autonomy Council, state that this is merely face saving talk on the part of the Chinese.

The Mongols still hold to their original plan of establishing their own tax stations for the collection of the tax on the enormous amounts of opium which pass through their territory from Kansu and Ninghsia into Suiyuan and Shansi. At the present time they receive nothing from the Suiyuan authorities though they claim that the caravans choose Mongol country to avoid the Chinese bandits. The Mongols contend that the establishment of their own tax system would avoid future trouble with the Suiyuan authorities as well as administrative difficulties incident to the collection of the entire tax by the Suiyuan officials and the remission of a portion to the Mongols. Of course the Mongols, true to their heritage, are firm believers that a bird in the hand is worth two in the bush and they would prefer a small tax they know they can secure in preference to the promise of a larger remittance through the Chinese which they never can be sure of receiving.

Conversations are now taking place in Peiping between General Ho Ying-chin, who is the representative of the Nanking Government nominally at the head of the Mongolian Autonomy Council, and Mr. Pao Yueh-ching, the special representative of Prince Te Wang. Mr. Hsiao Cheng-ying is the representative of General Ho but the Mongols are reticent about dealing with anyone but Ho on these matters. There was some talk of Hsiao being sent to Pailingmiao to see Te Wang and Yun Wang, the aged head of the Autonomy Council, but it is not believed that he will go at this time. Hsiao is from Chahar and for him to enter the discussion as a representative of General Ho would be taken as an attempt to dictate to Fu Tso-yi through Chahar. Unfortunately, though some of the old ideas in China are changing there are still times even in official matters when the birthplace of a Chinese is vitally important. It is known that Hsiao is trying to avoid going and is preparing to be taken sick should he be ordered to leave for Kweihwa. An attempt was made to involve General Sung Che-yuan, Chairman of Chahar, in the dispute but he solved the problem by entering the hospital with a sore arm. Fu Tso-yi feels secure because he holds his position from Yen Hsi-shan of Shansi and here the National Government is in a dilemma as that combination is too strong to be ignored.

The present tension in Sino-Mongol relations has been aggravated further by the sending of Suiyuan troops to a place some two hundred miles west of Pailingmiao on the pretense of bandit suppression but actually to prevent the establishment of tax collection stations by the Mongols. At the protest of Te Wang these forces were withdrawn once but, smarting under this loss of face, Fu Tso-yi has ordered an infantry regiment with artillery and machine guns back into Mongol territory. The Mongols have again protested to Ho Ying-chin but the combination of Fu Tso-yi backed by Yen Hsi-shan of Shansi is one not lightly disregarded. Ho is loath to issue the direct order for withdrawal as he does not wish to risk a breach with the Yen-Fu clique at this time. Te Wang has wired to Peiping saying that if the Suiyuan troops are not withdrawn he will have no alternative but to drive them out and Ho has replied asking him not to take any drastic action pending further negotiations.

The Mongols are very indignant over the action of Fu Tso-yi whom they regard as the chief obstacle in the path of Mongolian autonomy and satisfactory relations with the Nanking Government. A meeting of the Autonomy Council which was to have been held early in March has been postponed. They have informed Ho that the Japanese have offered them arms and financial assistance but reiterate that they have no intention of joining with the Japanese or Manchoukuo. Mongol representatives have stated that the very fact that the Chinese are taking their present attitude regarding troops and tax matters is proof that they are satisfied that the Mongols have no agreement with the Japanese. They feel sure that if the Chinese believed in any Mongol connection with Japan they would treat them with more consideration.

The history of Chinese official relations with the Mongols is not one to which the Chinese can point with pride. Of course the Mongols have not been blameless on all occasions either, but on the books of Sino-Mongol relations the balance would show in favor of the Mongols. They are no match for the Chinese in words but are more than equal in actions. An example of this was given a few days ago by Pao Yueh-ching who has already been mentioned as a special delegate from the Mongol Princes. He is a rough and ready individual who calls a spade a spade and was a brigade commander of Mongol cavalry before his eyesight failed. Pao has little use for the well known Chinese methods of diplomacy and tells them so to their faces. A few days ago he asked Ho Ying-chin whether or not the Chinese Government had any intention of killing him as they had killed Han Feng-lin (see G-2 Report No. 9005, item 3) and if so to please call the guards at once rather than prolong the matter with mystery as in Han's case. General Ho assured Pao that he need have no fears regarding his personal safety and regretted the delay in bringing the case of Han to a close. The incident has been kept very secret but like all secrets in China it has been told and is creating quite a stir among Chinese and Mongol circles in Peiping as indicative of the Mongol attitude in the present tax dispute with the Suiyuan authorities.

8. American Minister Returns.

Mr. Nelson T. Johnson, United States Minister to China, arrived in Shanghai on February 12th, accompanied by his wife and son. After some days in Shanghai and Nanking, Mr. Johnson left for Peiping, arriving at that place on March 1st.

S. V. Constant.
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Major, Cavalry
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Office of the Military Attache, American Legation, Peiping, China, March 1, 1935 - To: Chief, Military Intelligence Division, Washington, D.C.

Approved.

W. S. Drysdale
W. S. Drysdale
Lieutenant-Colonel, Infantry
Military Attache

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COMMENTS ON CURRENT EVENTS

March 2 - 15, 1935

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1. The National Government -
   - Restriction on Students
   - Kuomintang Publicity
   - Sun Yat-sen Memorial Services
2. Improvements on Tsinpu Railway
3. Sir Charles Bell
4. Chinese Mission Returns
5. Inner Mongolian Tax Dispute
6. Monetary Situation
7. Sino-Japanese Relations
8. United States Trade Mission
9. Chinese Eastern Railway

1. The National Government.

Restriction on Students.

On March 9th the National Government issued instructions to the effect that any student wishing to go abroad for the study of military science, either at his own expense or on funds donated from other sources, must first apply for Government permission and certificate through the Foreign Office. The regulations state that should persons fail to comply with the rules they will be deprived of a chance to receive any position under the Nanking Government upon their return.

These regulations are devised to curtail the number of students and military missions being sent to foreign countries by the Cantonese and other provincial authorities. There has been an epidemic of missions and military personnel travelling abroad and this the Nanking authorities wish to prohibit except for their own appointees. An example is the recent mission from Canton (see G-2 Report No. 9051, item 2).

Kuomintang Publicity.

Mr. Shao Yuan-chung has resigned as head of the Central Publicity Committee and his resignation was accepted by the Standing Committee of the Central Kuomintang. His place will be taken by Mr. Yeh Chu-tsang who is at present Secretary-General of the Central Kuomintang Headquarters.

The publicity and propaganda work of the Central Kuomintang Headquarters has assumed new importance of late and there seems to be an effort to give out news rather than to suppress it. Of course all news is very strictly censored and very little opposition material reaches the press. Foreign news men have protested to the Government regarding the activities of the censors who they state censor material without regard to its news value. Unimportant news items are stopped, while some actually criticizing the policy of the Government have not been censored.

Sun Yat-sen Memorial Services

On March 11th memorial services were held in Nanking and the larger cities throughout China in commemoration of the tenth anniversary of the death of Dr. Sun Yat-sen. The services at Nanking were the largest and were presided over by Mr. Wang

Ching-wei. Among other remarks, Mr. Wang expressed appreciation for the services held in Japan by some of the leading political leaders there in honor of Dr. Sun.

2. Improvements on Tsinpu Railway.

The Tientsin-Pukow Railway Administration has received orders from the Ministry of Communications to purchase a number of new and more powerful locomotives for use on the express trains. Just what type will be purchased is not known but it is understood that British engines are being given the most serious consideration.

3. Sir Charles Bell.

Sir Charles Bell, K.C.I.E., C.M.G., the distinguished authority on Tibet who has been on a visit to that country for the past fourteen months has arrived in Shanghai. Sir Charles was British Political Officer for Tibet, Bhutan and Sikkim, and resident in Tibet or its borders for sixteen years prior to his retirement. He is the only European now alive who spoke to the late Dalai Lama without the aid of an interpreter.

The C.M.G. was awarded to Sir Charles for his excellent services at the conference between Great Britain, Tibet and China in 1913 and the C.I.E. was given him upon his retirement. In 1920 he conducted the diplomatic mission to Lhassa and was knighted upon his return to England in 1922. His present trip is stated to be for the purpose of renewing old contacts prior to publishing a new book, but it is believed that a shorter stay than fourteen months would have sufficed for this and that his sojourn in Tibet was at the request of the British Government which is known to be worried over Russian activities in Sinkiang.

4. Chinese Mission Returns.

General Yu Fei-peng, head of the Military and Communications Affairs Investigation Commission (see G-2 Report No. 8991, item 4), arrived in Shanghai on March 1st. General Hsu Ting-yao, who was in charge of the military section of the Commission, arrived in Shanghai on March 9th.

General Yu stated that his trip was most satisfactory in every respect. He spoke of the remarkable improvements in communications of late years in foreign countries and told of the universally cordial reception that he and his colleagues had received while abroad.

General Yu reported to Mr. Chu Chia-hua, the Minister of Communications, on March 4th and stated that he expected to leave Nanking in a few days to discuss the results of his mission with General Chiang Kai-shek.

5. Inner Mongolian Tax Dispute.

The dispute between the Mongols and the authorities of Suiyuan Province regarding the percentage of tax on each ounce of opium which passes through Mongol country into Suiyuan is still unsettled. For a time matters looked serious and it was feared that the Mongols might actively oppose the sending of Suiyuan forces to the west of Pailingmiao (see G-2 Report No. 9063, item 7). At present it is believed that danger of an armed outbreak has been averted.

Discussions are now taking place between all parties concerned in an effort to evolve an acceptable compromise. The Mongols have appealed to General Ho Ying-chin, the Minister of War, as nominal head of the Mongolian Autonomy Council to settle the matter. He has heard the Mongol representations carefully and is thought to be in sympathy with them. Due to his efforts the Mongols have agreed to accept eight cents per ounce as their part of the tax. Ho's representatives have gone to Suiyuan to see Fu Tso-yi and to endeavor to settle the matter finally.

The difficulty seems to lie with Yen Hsi-shan of Shansi who cannot be reconciled to Mongolian autonomy and what he considers the interference of the National Government in affairs in the territory which he has always controlled. Reports of reliable Mongols recently returned from Kweihwa are to the effect that even the Suiyuan authorities are not adverse to giving the Mongols eight cents of the tax since their original demand was ten cents! Yen, however, has yet to be won over. He is still in mourning for his father and uses this as an excuse to delay any matters which he does not wish to handle or with which he does not agree.

The following are believed to be the terms of the tentative agreement proposed by Ho Ying-chin to which the Mongols have agreed:

(1) The Mongolian Political Council (Meng Cheng Hui) agrees to discontinue the tax stations along the Suiyuan border.

(2) The Suiyuan Provincial Government agrees to withdraw at once the troops sent into Mongol territory west of Pailingmiao.

(3) The Suiyuan Government agrees to remit eight cents of the present tax of thirty-eight cents per ounce on opium, which portion of the tax is to be paid to the Mongolian Political Council.

From confidential and reliable sources it is learned that the Suiyuan authorities are willing also to agree to these terms but that without the consent of Yen Hsi-shan, General Fu Tso-yi, the Suiyuan Chairman, is afraid to sign the document. Messengers from Mongolia arriving in Peiping as late as March 14th stated that the agreement had not yet been signed.

6. Monetary Situation.

The past two weeks has seen great fluctuations on the Shanghai exchange market which have been felt all over China. Rumors are still prevalent concerning reforms in the monetary system which the National Government authorities continue to deny. Dr. Kung stated recently that should any such measures be decided upon they would be announced through proper channels and not allowed to leak out. This statement was no doubt made to counteract the reports in both Chinese and foreign banking circles to the effect that the "Finance Group" headed by Dr. Kung was manipulating the foreign exchange market for its own benefit.

The question of a foreign loan to China has also been causing the money market to fluctuate. The Chinese authorities have varied in their statements regarding this but have all been careful to make it look as though the initiative in the matter had come from sources other than Chinese. The latest public statement regarding a loan was made by Dr. Kung on March 8th when he stated to the press in Shanghai that "The National Government would naturally be glad to accept financial assistance from friendly powers who proposed to render China a form of international loan".

It is believed that the Chinese are trying to secure some form of loan agreement from the great powers that will enable them to refuse a loan from Japan which the Japanese Government is thought to be pressing on Nanking at this time. To secure the loan from a combination of foreign powers would permit a graceful avoidance of pressure from Tokyo and furnish the Chinese with another method of opposing Japanese aggression.

In this connection the visit of the British Minister to Nanking is believed to be significant. He arrived on March 12th and is expected to remain for about a month. When asked regarding his mission there he replied evasively, but did state that certain problems arising from the present financial conditions in China might be brought up for discussion. It is the general belief that Sir Alexander's trip to Nanking is for the definite purpose of holding discussions with the Chinese Government officials regarding some form of international loan to China.

7. Sino-Japanese Relations.

On the surface the current of Sino-Japanese relations has undergone no apparent change during the last two weeks. Rumors are still rife of the various proposals which the Japanese are trying to force down the throats of the Nanking authorities. Some of these rumors include elimination of anti-Japanese propaganda, engagement of Japanese military instructors and advisers, funding of all loans of any kind made by Japan and the flotation of a large loan in Japan to assist China in the present financial situation.

The Japanese are keeping very quiet concerning just what they want and the Chinese officials are most reticent. It is quite evident that none but Chiang Kai-shek and possibly one or two others know the exact situation. If this were not the case the greatest secret could not be kept in this country where the "underground telegraph" has reached the acme of perfection.

It is believed that the Chinese Government is endeavoring to delay the Japanese pressure in the hope that they will receive some help from other sources such as an international loan to give them the necessary cash and also the moral backing to continue the policy of resistance to Japan.

General Doihara arrived in Foochow on March 13th after a visit to Canton and Hongkong (see G-2 Report No. 9063, item 6). While in the South he saw all the important Chinese who had been consistently loud in their opposition to the attitude of the Nanking Government. His next stop will be Formosa and then he plans to return to Japan. There is no question but that Doihara's visit to China, a very extensive trip by the way, is connected with the diplomatic effort of the Japanese Government in Nanking.

It is the belief of this office that Doihara is also making an estimate of the situation from the point of view of the Kuantung Army. While it is possible of course that in this case the policy of the Japanese Foreign Office and the Army may be the same, there have been many instances in the past where the two have not coincided. No doubt Doihara's reconnaissance will place the Army in possession of all the facts to agree or differ with the diplomats when the final matter of Japanese policy toward China comes up for decision.

In North China the situation continues calm. Major Takahashi of the Japanese Military Attache's Office in Peiping has gone to Hsinking for a conference with the authorities of the Kuantung Army. Before leaving he stated that the outstanding issues regarding the demilitarized zone had been settled and that only some minor details remained. His trip to Hsinking, he remarked, was for the purpose of reporting to General Minami regarding the settlement. It is the impression in North China that police matters in the zone will be placed in the hands of about five thousand special police which have been organized by the Chinese for that purpose, as has been previously reported.

8. United States Trade Mission.

Some of the members of the United States Economic Mission to the Far East arrived in Shanghai on March 11th. They departed for the Philippines the next day.

Advices from the United States indicate that the majority of the members will leave the United States on March 22nd and arrive in Shanghai on April 22nd.

The mission will be headed by W. Cameron Forbes, formerly Governor-General of the Philippine Islands, and includes many prominent American business representatives. The personnel of the mission leads to the belief that it may have an important bearing on the attitude of the United States in the Far East.

The officials of the Ministry of Foreign Affairs, Ministry of Industry and the National Economic Council are making preparations for the arrival of the mission and for its entertainment. Chinese authorities are hopeful that the trip of the Economic Mission may herald a renewal of American interest in China and the Far East. This interest they have felt for some time to be on the wane, particularly since the impression has been received that the United States was giving up the Philippines and withdrawing from this section of the world.

9. Chinese Eastern Railway.

All indications point to the final conclusion of the sale of the Chinese Eastern Railway in accordance with the agreement made on January 22nd (see G-2 Report No. 9051, item 9), and Japanese sources state that it was initialed on March 11th by Mr. Koki Hirota, Japanese Minister of Foreign Affairs; Mr. Constantin Yureneff, Soviet Ambassador to Tokyo; and Lieutenant-General Ting Shih-yuan, the Manchoukuo Minister to Japan. The final signing of the document is said to be scheduled for March 22nd. Since all reports of these latter stages of the negotiations have come from Japanese sources and the Russians have maintained a most uncharacteristic decorous silence, it is believed that both sides are convinced that the terms are as mutually satisfactory as is possible.

Simultaneously with these notices of agreement comes news from Nanking to the effect that Dr. W. W. Yen, Chinese Ambassador at Moscow, has been instructed to file another protest against the illegal sale of the railway. The Chinese Government bases its contention on the fact that it was by special grant of the Chinese Government that the C.E.R. was built on Chinese territory. Furthermore, it reiterates that paragraph 5 of Article 9 of the Sino-Russian Agreement concluded on May 3, 1934, states conclusively that the future of the line is to be determined by the Chinese Republic and the U.S.S.R. Dr. Yen has been instructed to protest again to the Soviet Government reviewing the stand of China and reserving all rights and interests in the C.E.R. thus illegally disposed of by Moscow.

An interesting development in the case will be seen when the question arises regarding the ownership of the property of the C.E.R. in Shanghai, which consists of certain land and buildings and also wharves on the water front. This is known as the Tungkadoo wharf section and occupies some twelve mow of land on the Pootung side of the river. From the terms of the tentative sale agreement it would appear that all property not actually in Soviet territory is ceded to Manchoukuo. If this is so the problem of whether or not Manchoukuo will take possession of the C.E.R. property in Shanghai will furnish another meaty diplomatic morsel for Sino-Japanese digestion.

Reports from Shanghai indicate that the liquidator of the Russo-Asiatic Bank has filed action to prevent this property being taken over by Manchoukuo on the grounds that the various branches of the defunct bank advanced large sums of money to the Chinese Eastern. The claim is that this amount plus interest has never been remitted to the agencies now endeavoring to close up the Russo-Asiatic liquidation.

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Office of the Military Attache, American Legation, Peiping, China, March 15, 1935 - To: Chief, Military Intelligence Division, Washington, D. C.

Approved.

W. S. Drysdale
W. S. Drysdale
Lieutenant-Colonel, Infantry
Military Attache

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COMMENTS ON CURRENT EVENTS

April 13 -- 26, 1935

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1. The National Government -
   Anniversary Celebration
   League Adviser
   New Chairman for Kweichow
2. Sino-British Boundary Dispute
3. Silver Situation.
4. Panchan Lama Goes Airminded
5. Situation in Shantung
6. Japanese Boycott Report
7. Chinese Minister Visits Formosa
8. Credit Loan Regulations
9. American Economic Mission
10. Mongolian Affairs
11. American Minister Travels

1. The National Government -

Anniversary Celebration.

On April 18th a celebration was held in Nanking to commemorate the eighth anniversary of the establishment of the National Government at that place. The ceremonies were presided over by Mr. Lin Sen and included a meeting, tea party and dinner. No political matters were discussed.

League Adviser.

Mr. Robert Haas of the Communications Section of the League of Nations (see G-2 Report No. 9096, item 5) arrived in Shanghai on April 16th and left the next day for Hongkong. From there he expects to visit Kwangtung and Kwangsi to inspect reconstruction work in those provinces.

New Chairman for Kweichow.

The resignation of General Wang Chia-lieh as Chairman of Kweichow Province has been accepted by the National Government and Mr. Wu Chung-hsin, former Chairman of Anhwei, has been appointed in his place. It is believed that Chiang Kai-shek questioned the loyalty of Wang and hence the change. Wang goes on strictly military duty where Chiang can keep a closer eye on his activities.

Wu Chung-hsin is a native of Anhwei and forty-eight years of age. He is a literary man though he had a little military training in his youth. His replacement as Chairman of Anhwei two years ago was no reflection on his ability but was due to the presence of Communist bands in his province and the necessity of having a military man as Chairman. Wu has held various posts under the National Government and he is highly thought of by Government officials.

2. Sino-British Boundary Dispute.

As the result of a series of notes exchanged between Sir Alexander Cadogan, British Minister to China, and Mr. Wang Ching-wei, the Minister of Foreign Affairs, the machinery has been set in motion for the settlement of the boundary dispute at Panghung on the Yunnan-Burma border. These several notes were exchanged on April 9th in quick succession, showing that the matter had been agreed upon beforehand.

The notes provide for an Investigation Commission of five members, two each to be provided by the British and Chinese Governments respectively, while a neutral Commissioner will be appointed by the President of the Council of the League of Nations. The latter member will act as Chairman and will have the deciding vote in cases where the opinion of the members may be equally divided.

The question of modification of the present situation in the light of the report of the Commission or in any topographical, historical or political factors that may appear relevant was provided for in the second set of notes. These provide for a conference at Nanking, if necessary, between the representatives of the British and Chinese Governments, including representatives of Burma and Yunnan, to negotiate the question.

All negotiations are planned to be embodied in a new agreement pending the conclusion of which both Governments reserve the right to maintain their present positions. Detailed information on this subject is contained in G-2 Report No. 9104.

3. Silver Situation.

Financial circles state that a gentlemen's agreement not to ship silver out of China has been entered into by twenty-five members of the International Banking Association of Shanghai on April 16th. It was generally agreed that the foreign banks should co-operate with the Chinese banks in Shanghai in stabilizing the money situation but that no time limit on the duration of the agreement should be stated.

It is believed that it is to the interest of the foreign banks to co-operate with the Chinese Government in this matter as indirectly it affects all foreign trade. A suggestion that mercantile firms also join was made but so far as is known no action has been taken in this regard.

The co-operation between Chinese and foreign interests is expected to raise confidence in the general business situation and check hoarding of silver, a thing which the National Government has been trying to avoid (see G-2 Report No. 9077). Figures compiled by the Economic Research Department of the Bank of China state that the amount of hoarded silver in Shanghai amounts to $337,155,000. Of this $286,791,000 is in Chinese banks and $50,364,000 in foreign banks.

4. Panchan Lama Goes Airminded.

According to information from Shanghai, representatives of the Panchan Lama are negotiating with officials of the Eurasia Aviation Corporation with a view to securing a private plane for the use of that dignitary. Rumors are to the effect that the Panchan will leave this month by air from Ninghsia and proceed to Lanchow in Kansu, from which place he will travel to Chinghai.

No definite date has been set for the proposed return of the Panchan to Tibet and officials of his retinue refuse to commit themselves on this point. Political conditions in the Land of the Lamas have failed to work out as the National Government and the Panchan Lama had hoped and there appears to be little hope that he will be able to end his nearly ten years of exile from his native province in the near future. The group of elders now holding the reins of power in Lhassa have failed to be won over by the recent mission from Nanking and despite glowing reports from General Huang Mu-sung, confidential information indicates that very little was accomplished. Huang has been made Chairman of the Mongolian and Tibetan Affairs Commission in Nanking as the result of his trip (see G-2 Report No. 9051, item 1).

5. Situation in Shantung.

A personal inspection reveals that conditions in Shantung Province are quieter than they have been for some years. Han Fu-chu, the Chairman, after carefully estimating the political and military situation decided to cast in his lot with that of the National Government. Having made his decision he has done his best to play the game, not without frequent misgivings, it is true, but on the whole it can be said that he has followed the rules as well as any of the provincial chairmen and better than most of them.

One of the great problems in Shantung is the Japanese question since that province is one of the places in which Japan feels she is the holder of special privileges. Strange to say, at the present time Japanese activities in Shantung are quiescent. There has been no great drive to sell Japanese goods and no pressing of demands upon the provincial officials. Both foreign and Chinese opinion coincide on these points. It is true that there are some twenty Japanese military police in Tsinanfu as a guard for the Consulate, but even they, contrary to their usual custom, make themselves surprisingly scarce and as often appear in Chinese clothes as in olive drab.

Chairman Han is busy with the internal reconstruction of his province and despite the fact that his political secret agents are travelling to Kwangtung, Kwangsi and other provinces, he appears to be worrying about little else than his own territory. This of course is due to the policy of the National Government and the fact that it takes good care that Han's stock of military supplies does not build up too fast. The Tsinan Arsenal is still working but a National Government representative is there to check on the output. Han is very anxious to get some artillery and airplanes but does not consider them important enough to risk a break with the National Government. Confidential sources close to him, whose information has been verified by reliable foreigners, state that some months ago a representative of the British Military Attache's Office (allegedly the British M/A himself) visited Han with a view to selling him some airplanes. He was told that the possibility of shipping them in by pieces or otherwise smuggling them in was not worth the chance discovery by Nanking agents and the resulting trouble it would cause. There is no question that Chiang Kai-shek has put the fear of the Lord into Shantung officials.

So Han Fu-chu is spending his time and money in building himself strong with what his own province can supply augmented by what the National Government is willing to let be imported. Roads are receiving attention partly because of their commercial value and partly to forestall another Liu Kuei-tang debacle, when Liu's bandit horde led the slow moving Shantung troops on a stern chase across the province much as was done hundreds of years ago in the days of the Shui Hu Chuan (translated by Pearl Buck under the title "All Men Are Brothers").

Han's answer to this was to build roads with renewed fervor and to purchase two hundred Ford truck chassis. Some one hundred and fifty of these have already arrived in Tsinan and are having bodies built on them by local talent. Part of these are to be used on road work and the rest are to be used to transport troops quickly from one part of the province to the other.

Apart from Han Fu-chu the most prominent character in Shantung is Feng Yu-hsiang, who is achieving fame by studying and writing classical characters and poetry in a temple near the foot of Tai Shan, the sacred mountain of Confucian fame. It was here that Confucius made the famous remark that "When one climbs the east mountain Shantung appears small but when one climbs Tai Shan the whole world looks insignificant". So Feng, once called the "Christian General", one time student of Bolshevik doctrines, sits in his retreat on Tai Shan and looks on the Chinese drama being enacted about him with disdain.

Feng has built a "Hall of Heroes" in which are placed the tablets of famous persons who have died for China. He says that the present leaders of China are working only for their gain and that only when they declare war upon Japan will he come out and take part in public life again. To those who knew Feng in the days of the First Kuominchun, when by his hard drill and militant christianity he trained the best body of troops in China, the Feng of the present time is a very different person. Gone is the gimlet eye and in its place is the eye of the dreamer, almost fanatical in its glance. Feng may come back but his present activities, general appearance and simple surroundings with less than a hundred mediocre boy-soldiers to guard him, belie the possibility of any such reincarnation in the near future. Feng was an opportunist of little education with little ability other than as a drillmaster. He could use the club of force but when the situation required brains he was defeated by himself.

Feng is now living practically on the bounty of Han Fu-chu, who was one of his regimental commanders ten years ago. Once prominent and disliked for his ability to change sides with great speed in the days of his power, Feng's reputation is now growing for his studious attainments, his well written characters and the twenty books he has compiled since his retirement. In many ways he is a hindrance to Han and in many ways an asset. It will be interesting to see how that individual will use Feng in the future drama of Shantung on the Chinese political and military stage.

6. Japanese Boycott Report.

According to Japanese sources, one of the results of the Japanese Consular Conference in Shanghai (see G-2 Report No. 9096, item 6) was a report on the boycott situation made by Mr. Ariyoshi, the Japanese Minister to China. The general remarks contained in the report are to the effect that the boycott situation in the North remains the same as before, comparatively mild. In Tientsin and along the Yangtze River, as well as in Fukien, the boycott against Japanese goods is gradually decreasing. South China, however, still remains strongly anti-Japanese, according to Ariyoshi.

It is understood that measures were discussed at the Consular Conference as to future actions in regard to anti-Japanese evidences but so far as is known nothing has been made public.

Chinese sources state that there were three resolutions adopted at the conference which were as follows:

1. Efforts will be continued to suppress anti-Japanese sentiment in China.
2. Steps should be taken to eliminate foreign (other than Japanese) economic influence in China.
3. Measures should be devised for bringing China and Japan closer together.

In connection with the strong anti-Japanese feeling in the South, which has been noted above, the announcement that some twenty officers from that section would soon be sent to Japan for training is interesting and believed to be the result of the recent visit of General Doihara to South China.

7. Chinese Minister Visits Formosa.

General Chiang Tso-pin, Chinese Minister to Japan, has been on an inspection tour of Formosa. In a recent interview he stated that there were some 43,000 Chinese residents on the island who were living in satisfactory conditions. The only criticism made by the General was to the effect that the educational facilities for Chinese children were not sufficient.

The visit of the Chinese Minister to Formosa at the present time is believed not have any particular significance other than perhaps to be absent from Tokyo during the arrival and attending ceremonies in honor of Pu Yi, the Emperor of Manchoukuo, who has been visiting Japan. General Chiang went at once to Beppu, a health resort, upon his arrival in Japan and stated that he intended to spend some days there resting. This rest will likely last as long as Pu Yi remains in Japan.

8. Credit Loan Regulations.

The Ministry of Finance has just finished preparation of regulations governing the extension of credit loans to Chinese industrial and commercial concerns which have been sent to the banks for immediate enforcement. These regulations provide that only factories for the manufacture of native products and commercial establishments dealing in Chinese goods or in export trade are entitled to receive such credit loans.

The banks which extend these loans are to have power to supervise the expenditure of the loans and are to send experts to give technical advice to the various firms when necessary. Interest on such loans shall not exceed eight per cent and rates may be lowered on appeal to the Ministry of Finance by such firms as are not able to bear the higher interest rate. The term of the credit loans is not to exceed one year and the total amount of funds earmarked for these loans is not to exceed $5,000,000 silver.

It can be seen from the synopsis of the regulations given above that the matter will be most complicated to administer and very involved in its processes. There will be possible all kinds of "friend pigeon" on the part of the banks and the Ministry of Finance when the question of a variable rate of interest comes up, and the man with a friend at court will bargain for the lowest possible rate. The Chinese, however, are not awed by the complications of the system and it will be carried out no doubt with the same care of calculation that characterizes all questions involving money in China.

9. American Economic Mission.

The members of the United States Economic Mission to the Far East (see G-2 Report No. 9075, item 8) arrived in Shanghai on April 22nd. According to information from the Ministry of Foreign Affairs the Mission went to Nanking on April 24th where it will remain for two days. After this the members will return to Shanghai. Here the Mission will divide into several parties to inspect the economic conditions in various parts of China. Present plans are for the Mission to remain about two months in this country, the various groups meeting again in Shanghai early in June.

10. Inner Mongolian Affairs.

There have been no important developments in the Sino-Mongol situation as regards the opium tax discussion (see G-2 Report No. 9096, item 10). Apparently preparations to have the opium sent in through Kalgan instead of through Kweihwa are being satisfactorily made, notwithstanding the opposition of Yen Hsi-shan. That Yen is much concerned is certain for on April 18th he suddenly returned to Taiyuanfu after an absence of several months during which time he has been in mourning for one of his parents. Immediately after his arrival in the Shansi capital, Yen held a conference with Mr. Chao Pei-lien, Vice-Chairman of the Mongolian and Tibetan Affairs Commission in Nanking. Chao was formerly Yen's secretary and comes from the same district in Shansi. It is anticipated that his selection as an envoy by Nanking to discuss the opium tax question with Yen will make the negotiations easier.

The Mongols have decided to convene the Mongolian Political Council at Pailingmiao, the meeting of which has been postponed for some weeks due to the presence of Suiyuan troops at Hashatu. The first session was held on April 24th and was devoted mostly to routine matters, nothing of any importance being discussed. Te Wang, the Secretary of the Council and one of the most influential men in Inner Mongolia, is expected to present to the Council the results of his conferences with General Sung Che-yuan, Chairman of Chahar, which took place on April 11th and

12th. The recent turn of affairs which aligns Sung and Chahar with the Mongols is known to be most welcome to all parties concerned except Yen Hsi-shan.

Pao Yueh-ching, the clever Mongol ex-cavalry general who has been Te Wang's representative in Peiping and who is largely responsible for the plan to divert the opium traffic to Kalgan, has gone to Pailingmiao to be present during the meetings of the Council. His diplomatic efforts in Peiping have met with such success that it is expected he will be the permanent spokesman of the Mongols in Peiping where he will remain to present their case to Ho Ying-chin. He has approached Ho with the plan that the Peiping Political and Military Councils pay the expenses of an office in Peiping which will be a branch of the Mongolian Political Council and headed by Pao Yueh-ching. From confidential sources it is learned that General Ho has stated that the Military Council will agree to this proposal. The Political Council has not given its consent as yet due to the fact that its funds have been considerably cut since the departure of Huang Fu.

Conditions, however, look brighter in the Chinese relations with Inner Mongolia. With Chahar not only friendly but actually helping the Mongols with the consent of the Central Government, it is not believed that Yen Hsi-shan of Shansi and Fu Tso-yi of Suiyuan will be willing to come to an open break concerning the opium tax question. It is expected that they will try to oppose the new political set up vis-a-vis the Mongols in every way and in accordance with the best traditional Chinese political practices.

11. American Minister Travels.

The American Minister to China left Peiping on April 18th for a trip to Nanking. He was accompanied by Mr. L. Salisbury, Second Secretary of Legation. Mr. Johnson expects to be away from Peiping for about a month.

S.V. Constant.
S. V. Constent
Major, Cavalry
Assistant Military Attache

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Office of the Military Attache, American Legation, Peiping, China, April 26, 1935 - To: Chief, Military Intelligence Division, Washington, D. C.

Approved.

W. S. Drysdale
W. S. Drysdale
Lieutenant-Colonel, Infantry
Military Attache

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COMMENTS ON CURRENT EVENTS

April 27—May 10, 1935

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1. The National Government -
    - Control Yuan Inspectors
    - Minister to Cuba
    - Military Attache to U.S.S.R.
2. Siamese Mission to Japan
3. Soviet Ambassador States no Aggression Intended
4. Szechwan Government Moved
5. Kweichow Provincial Administration Reorganized
6. Pailingmiao Conference
7. Anti-Piracy Measures in South China
8. Manchoukuo -
    - Demilitarization of Soviet-Manchoukuo Border
    - Mongolian-Manchoukuo Conference
    - Japan-Manchoukuo Economic Council Established
    - Relinquishment of Extrality in Manchoukuo
    - Pu Yi Returns to Hsinking
9. China Liquidates Japanese Rail Loan
10. Renewal of Japanese Concession at Hangchow

1. National Government -

Control Yuan Inspectors.

At a meeting of the Control Yuan on April 29th, seven members were appointed as special inspectors for various areas of China. The names of the officials and the areas for which they will be responsible are given below:

Kiangsu Province	Mr. Ting Chao-wu
Kiangsi and Anhwei Provinces	Mr. Miao Pei-cheng
Fukien and Chekiang "	Mr. Chen Chao-ying
Hunan and Hupeh "	Mr. Kao Yi-han
Honan and Shantung "	Mr. Fang Chueh-hui
Hopei Province	Mr. Chou Li-sheng
Kansu, Ninghsia and Tsinghai (Chinghai) "	Mr. Tai Kuei-sheng

The Control Yuan of the National Government is the present day organ based on the Board of Censors of the imperial days in China. The duty of the members of the Control Yuan is to keep a watch over government officials and to send in impeachments against those guilty of maladministration.

Minister to Cuba.

On April 22d, the Executive Yuan reached a decision to recall Dr. Lin Ping, Chinese Minister to Cuba, and to appoint General Chang Hui-chang in his place. It is learned that the formal appointment will be announced in the near future.

No reason for the recall of the present Minister to Cuba can be ascertained and the change is believed to be due to the wish of Chiang Kai-shek to get Chang Hui-chang out of China. Chang, it will be recalled, was former head of the Canton Aviation

Department, but became so influential that the Southwest Political Council forced him out of office. He then came to Nanking and tried to secure an appointment with the National Government, in which effort he would have been successful had it not been for T. V. Soong's opposition.

Chang has been to the United States and is considered to have considerable ability but to be a stormy petrel.

Military Attache to U.S.S.R.

Colonel Teng Wen-yi, the newly appointed Chinese Military Attache to the U.S.S.R., has arrived in Moscow. He was formerly a student in the Chung Shan (Sun Yat-sen) University in Moscow and speaks Russian. After his return from Russia he served for several years as a secretary to Chiang Kai-shek. Colonel Teng is not personally known to members of this office but Chinese officials state that he is a very capable man.

2. Siamese Mission to Japan.

A mission from Siam under the leadership of the Director of the Intelligence Department of the Ministry of Railways passed through Shanghai the latter part of April on its way to Japan. The mission is composed of seventeen members who are going directly to Tokyo to be present at the tourist conference which will be held there under the auspices of the Japanese Ministry of Railways.

There has been an increased interest evidenced recently by officials of the Siamese Government in things Japanese. Military students from Siam are to study in Japanese schools and Japanese authorities are endeavoring to foster friendly relations between the two countries.

3. Soviet Ambassador Makes Important Statement.

Mr. Bogomoloff, the Soviet Ambassador to China, on April 29th made a formal statement to Mr. Wang Ching-wei at Nanking denying that Soviet Russia had any aggressive intentions in Sinkiang and branded all reports now in circulation to that effect as entirely without foundation. Mr. Bogomoloff also expressed his hope that the relations between China proper and Sinkiang could be drawn closer in due course of time. The bulk of the trade of Sinkiang is through the U.S.S.R. and is already in Soviet hands. There is no doubt that the Soviet authorities are aware of that fact and are willing to use military force to maintain order in the province and to protect the Chinese officials who favor their policy. Further aggression would seem not only unnecessary but ill-advised.

4. Szechwan Government Moved.

Word has been received from Chungking to the effect that the site of the Szechwan Provincial Government will be moved from that place to Chengtu in the near future. During the last two years, in fact from the time of the trouble between Liu Wen-hui and Liu Hsiang, there has been no proper civil government in Szechwan as the province has been under military rule. Even since the appointment of Liu Hsiang as Chairman, all civil business has been conducted from his military headquarters. With the return of the civil administration to its former location at Chengtu and the reorganization of the Provincial Government with the participation of Nanking, conditions look brighter for Szechwan than they have for a number of years.

5. Kweichow Provincial Administration Reorganized.

Complete reorganization of the Kweichow Provincial Administration was decided upon at the April 23rd meeting of the Executive Yuan. All former members were relieved from their duties and Messrs. Tsao Chin-hsi, Li Chung-kung, Yeh Yuan-lung, Shen Kan-hsi and Wang Cheng-ying were appointed new members of the Kweichow Administration, which is headed by Mr. Wu Chung-hsin.

The meeting also decided that the National Government should issue a mandate exempting land tax in Kweichow for the current year on account of military operations in that province.

This political reorganization accompanied the anti-communist operations and should be an important factor in improving a situation in this province that has for years been indescribably chaotic and disorganized.

6. Pailingmiao Conference.

The Second Plenary Session of the Mongolian Political Council, which opened at Pailingmiao on April 23rd in the presence of all its important members, was closed on April 27th. While the results of the conference were not disclosed they are described as giving the utmost satisfaction and indicate an improvement in Chinese-Mongol relations.

7. Anti-Piracy Measures in South China.

The Kwangtung provincial authorities are placing three cruisers with a shore party of 200 marines aboard on a permanent anti-piracy patrol along the southern coast.

The "Hai Chi" has been designated flagship of the patrol and will operate from Bias Bay. The Hongkong naval authorities are continuing their close co-operation with the Chinese officials in the suppression of piracy and are maintaining a destroyer patrol along the coast. These measures will no doubt result in lessening the danger from Chinese pirates who have operated from the Bias Bay region for years and have been a constant menace to shipping along the South China coast.

8. Manchoukuo -

Demilitarization of Soviet-Manchoukuo Border.

Press despatches stating that the Soviet Government is prepared to enter into negotiations with Japan for the withdrawal of troops from the Manchoukuo frontier were verified by the Soviet Military Attache here.

Edward Lepine (no rank is assumed), Military Attache of the Embassy of the Union of Soviet Socialist Republics, admitted to the Military Attache that such a proposal had been made with a view to avoiding the many frontier incidents that he claimed were largely the fault of the Japanese. "Comrade" Lepine stated that the proposed demilitarized zone was to have a depth of at most a few kilometers and was not at all important in a tactical or strategical sense. He further stated that the U.S.S.R. was fully prepared to sign a non-aggression pact with the Japanese or any other power. His significant admission was to the effect that time was working in favor of the U.S.S.R. and that their relative position with respect to Japan was constantly improving.

Mongolian-Manchoukuo Conference.

After protracted negotiations, the Outer Mongolian Government has agreed to send a representative to a conference at Manchouli on May 15th for the settlement of the Lake Buir Nor incident. It will be recalled that on January 24th a skirmish took place on the border between Mongolia and Manchoukuo near Lake Buir Nor. The Mongolians at first suggested Chita as a place for the conference but have apparently acquiesced in the Japanese suggestion of Manchouli as a meeting point. Manchouli seems a logical place for the conference even though under Japanese "protection".

Should this conference settle the boundary line near Lake Buir Nor there would seem to be no immediate prospect of further Outer Mongolian-Japanese incidents. The only remaining sensitive sector on the western Manchoukuo border would seem to be in the vicinity of Dolonnor. This place, a trading post admittedly in Chahar Province, is occupied and administered by a combined Japanese-Manchoukuo force.

Japan-Manchoukuo Economic Council Established.

Advices reaching here from Changchun indicate that the projected organization of a Japan-Manchoukuo Economic Council is nearing completion. The Council will undertake the nationalization of Japanese economic activities in Manchuria with a view to exploiting systematically its natural resources. It is said that the Council will centralize the activities of the Kuantung Army and the South Manchuria Railway, both of which have been working more or less independently in the economic field.

It is further learned that after the establishment of the Council Japan will renounce her extraterritorial rights in the Northeastern provinces.

Relinquishment of Extraterritoriality in Manchoukuo.

Press despatches disclose that a preparatory committee for the relinquishment of extraterritoriality in Manchoukuo has formulated a policy of gradual abolition of extraterritoriality on behalf of the Japanese Foreign Office. According to the plan proposed, relinquishment would be in the order of first taxation, then police rights and lastly consular jurisdiction.

While no definite date is disclosed, the report is to the effect that the abolition of taxation rights is to begin early next year. This is no doubt intended to make face for the Chinese and Manchu officials in the Manchoukuo Government and to impress the Chinese south of the Wall with the sincerity and magnanimity of the Japanese. There would not conceivably be any action taken by Manchoukuo officials now or after the abolition of extraterritoriality that would be unjustly or illegally hostile to Japanese interests.

Pu Yi Returns to Hsinking.

Ending his memorable visit to Japan, the Emperor of Manchoukuo returned to Hsinking on April 27th. The train carrying Pu Yi and his suite reached the Hsinking station at 5:30 p.m. At the station His Majesty was greeted by high Japanese and Manchoukuo officials. He left the station for the Imperial Palace by motor-car at 5:50 as a band played the national anthem of Manchoukuo.

9. China Liquidates Japanese Rail Loan.

An agreement for the liquidation of a loan amounting to Yen 10,000,000 made by the East Asiatic Development Company to the Nanchang-Kiukiang Railway was provisionally signed between Dr. Katsuju Uchida, Managing Director of the Company, and the Railways Department of the China National Government, according to information received here.

The information states that the interest in arrears was fixed at Yen 8,000,000 and that the interest of 6.75 per cent per annum for the principal was lowered to six per cent with a stipulation that the principal and interest shall be paid over a period of 24 years.

In the event of insufficiency of railway receipts for the payment, receipts from other sources will be used, the information indicates.

10. Renewal of Japanese Concession at Hangchow.

The Japanese Concession at Hangchow will be renewed for another period of thirty years in accordance with a decision reached in early April by the Nanking Foreign Office. It is reported that the Japanese made repeated demands that the concession be renewed and that the Chinese eventually gave way on this matter under the pressure exerted. This was during the period of considerable newspaper publicity regarding a Chinese-Japanese rapprochement and efforts to establish a spirit of "co-operation" by the Japanese side. This concession, the liquidation of certain Japanese loans on railway construction and an allegedly Chinese agreement regarding the so called Nishihara loans are the only evidence that the Chinese have given way on any important points to so called Japanese pressure. Please refer to pages 285, 286 and 287 of the China Weekly Review of April 27, 1935, appended hereto. This subject will be reported further as developments warrant.

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Japan Forces Renewal of Concession at Hangchow for Another 30 Years

BY C. Y. W. MENG ([illegible])

IN 1895, China was not merely defeated but was humbled by Japan. By the Treaty of Shimonoseki, Japan was not only to enjoy the many privileges and rights which China granted to the western powers, such as the extraterritorial privileges, the most favored nation clause, etc., but Japan was also to enjoy the right "to carry on trade, industries and manufactures at any of the treaty ports",—a right which China rejected previously and a right which other treaties did not provide. In addition, four "interior" cities were to be added to the list of treaty ports,—Shasi and Chungking far up on the Yangtsze, and Soochow and Hangchow on the Grand Canal—and the direct waterways leading to them were to be opened to traffic.

Origin of Japanese Concession in Hangchow

Article VI of the Treaty of Shimonoseki reads in part as follows :—

> "China makes, in addition, the following concessions, to take effect six months after the date of the present Act :—
>
> "First—The following cities, towns, and ports in addition to those already opened, shall be opened to the trade, residence, industries, and manufactures of Japanese subjects, under the same conditions and with the same privileges and facilities as exist at the present open cities, towns, and ports of China: 1. Shashih, in the Province of Hupeh; 2. Chungking, in the Province of Szechuen; 3. Soochow, in the Province of Kiangsu; and, 4. Hangchow, in the Province of Chekiang."

Article I of the "Land Regulations of the Japanese Concession in Hangchow" of 1896 (杭州日本商民居留地章程) provides :—

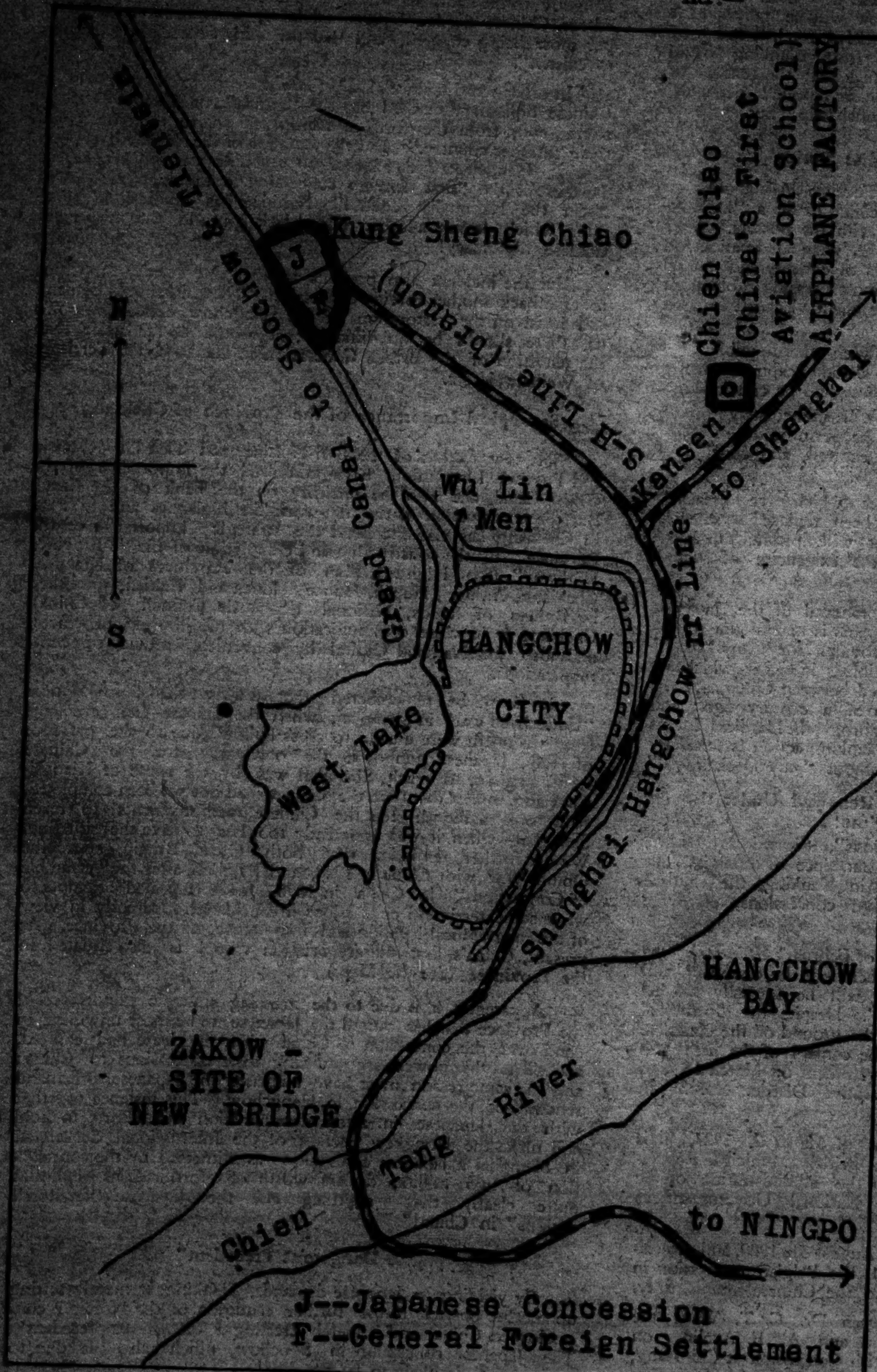
> "The area outside Wu Lin Men (武林門), Hangchow, situated to the north of Kung Sheng Chiao (拱宸橋), stretching along the eastern bank of the Grand Canal from Chang Kung Chiao (拱宸橋) to Kung Sheng Chiao (長公橋), having been made a General Foreign Settlement, a Japanese Concession is now fixed upon within this area. Two plans have been made and one of each deposited with the local Chinese authorities and the Japanese Consulate, the said plans showing sites which may be leased by Japanese merchants." (Translated by the writer).

So today, we see that about four miles from the Hangchow City Wall, there exists a Japanese concession on the eastern bank of the famous Grand Canal. (See the map.) Let it be pointed out that before the S-H-N (Shanghai, Hangchow and Ningpo) Railway was constructed, the Grand Canal formed an easy and the only means of communication between the north and central China, and between Shanghai and Hangchow; and, therefore, the districts along the both banks of the Grand Canal were of great value and importance.

Lease Has Expired Already

Article 7 of the above mentioned "Land Regulations" provides :—

> "All leases are limited to a period of thirty years, at the end of which new title-deeds are to be taken out and the leases renewed. If


to Soochow & Tientsin
Kung Sheng Chiao
J
F
S-H Line (branch)
Chien Chiao (China's First Aviation School) AIRPLANE FACTORY
Kansen
to Shanghai
N
S
Grand Canal
Wu Lin Men
HANGCHOW CITY
West Lake
Shanghai Hangchow Line
HANGCHOW BAY
ZAKOW - SITE OF NEW BRIDGE
Chien Tang River
to NINGPO
J--Japanese Concession
F--General Foreign Settlement

Map of Hangchow and Vicinity

[illegible] grown into a prosperous business [illegible] thirty-year [illegible] the [illegible] decide to increase the tax, such increase [illegible] after due consultation with Japanese consular [illegible] on the basis of the prevailing [illegible]. The [illegible] title-deeds shall be [illegible] after every [illegible] shall be cancelled if the lessees fail to report [illegible] at the expiration of the leases. In years [illegible] of title-deeds new title-deeds shall be made [illegible] renewed without the lessees having to pay [illegible] ground rent, and the officials of the two Govern[illegible] shall not make any obstructions damaging [illegible] interests of the lessees. In case of extraordinary cir[illegible] rendering it impossible for lessees to apply for [illegible], such application shall be made when normal [illegible] have been restored." (Translated by the writer).

That is, the lease must have expired sometime last year.

[illegible] for Another 30 Years— Japanese Demands!

But according to the report—which was now been confirmed [illegible] Japanese Concession in Hangchow will be renewed for [illegible] 30 years, in accordance with a decision reached today by [illegible] Government." (See Reuters' report from Nanking dated [illegible]). We are further reliably informed that the renewal of [illegible] concession lease was due to the Japanese repeated demands, [illegible] the Chinese authorities could not help but agree to the renewal!

Contrary to the Nationalist Policy

On July 7, 1928, the Ministry of Foreign Affairs of the National Government of the Republic of China made a "Declaration" on the conclusion of new Treaties with the powers. After pointing out that "the abrogation of all the 'unequal treaties' and the conclusion of new Treaties on the basis of equality and mutual respect for territorial sovereignty was the most pressing problem at the present time," the National Government declared in part that:—

"(1) All the unequal treaties between the Republic of China and other countries, which have already expired, shall be ipso facto abrogated, and new Treaties shall be concluded.

"(2) The National Government will immediately take steps to terminate, in accordance with proper procedure those unequal Treaties which have not yet expired, and conclude new Treaties.

"(3) In the case of old Treaties which have already expired, but which have not yet been replaced by new Treaties, the National Government will promulgate appropriate interim regulations to meet the exigencies of such situation."

It will therefore, be seen that the renewal of the Japanese concession in Hangchow for another 30 years is tantamount to the renewal of an "unequal treaty" which provides for many "special privileges and rights" for foreign nationals in China, which are contained in treaties which were concluded between China and the foreign powers about half or a quarter of a century ago; and which the Nationalists have avowed to abrogate! Needless for us to discuss and point out that the Nanking action is contrary to both the letter and spirit of the famous "July Declaration!"

The First Foreign Concession Renewed Under the Nationalist Regime!

There are many "foreign concessions", "leased territories", "foreign settlements", etc., in China. But since the establishment of the National Government in 1926 in Nanking, the Chinese policy has been to take back the foreign concessions, etc., one after the other.

By the Chen-O'Malley Agreement of February 19, 1927, "the British Municipality (in Hankow) will thereupon be dissolved, and the Administration of the Concession will be formally handed over to the new Chinese Muincipality". Despite the "protests" from the British residents in China on the ground of the complete absence of "satisfactory guarantee", the control of the area was formally transfered to the National Government on March 15, and is now known as "Special Administrative District No. 3" in Hankow.

By the Chen-O'Malley Agreement of March 2, 1927, "His Majesty's Government will cancel the British Municipal Regulations, and hand over unconditionally the administration of the concession area at Kiukiang to the National Government, as of March 15 next".

By the Sino-Belgian Agreement of August 31, 1929, and ratifications exchanged on February 18, 1931, the Belgian concession in Tientsin was formally handed over to the Chinese municipality.

By the exchanges of Notes between Dr. C. T. Wang, the then Minister of Foreign Affairs, and A. F. Aveling, on behalf of the British Minister, the British Concession at Chinkiang, granted to Britain by virtue of the Sino-British Treaty of Tientsin of 1858, was officially handed over to the Chinese on November 15, 1929.

By the Wang-Lampson (Dr. C. T. [illegible] Lampson) Agreement of April 18, 1930, [illegible] territory of Weihaiwei, leased by China to H[illegible] under the Convention of the 1st July, 1898, sh[illegible] full sovereignty to China".

It is recalled that at the Washington Confere[illegible] Government announced its intention of restoring [illegible] Weihaiwei to China, and that a Rendition Agreeme[illegible] already for signature since 1924. The French Gove[illegible] announced at the Conference its intention of restor[illegible] chowwan to China "when the British Government do [illegible] territory of Weihaiwei". But the fact that the Chinese [illegible] did not demand of the French Government to fulfill her [illegible] and to press on for the restoration of Kwangchowwan [illegible] after the restoration of Weihaiwei to China, has been [illegible] disappointment to the Chinese historians!

By the Wang-Lampson Exchange of Notes on Septembe[illegible] 1930, "the documents of title to the lots of land in the said [illegible] in Amoy issued by His Majesty's Government in the Un[illegible] Kingdom to the nationals other than the Chinese will be exchan[illegible]ed for Chinese deeds of perpetual lease, a registration fee of [illegible] per mow being charged, and that the said concession will cea[illegible] to exist...".

In other words, since 1927, there was opened a new era in Chinese diplomacy marked by the "return" of foreign concessions, etc., from the foreign administration to the control of their "mother country." But the renewal of the Japanese concession in Hangchow for another 30 years at the request of the Japanese is the "first foreign concession in China ever renewed under the Nationalist regime!" Nanking has again done something which leaves another big black spot in the history of Chinese diplomacy!

But the incident also presents another opportunity for China to take back another foreign concession. Nanking should demand and insist on the restoration of the Hangchow concession. To us, there should be no difficulty; it should be far easier than the rendition of the British Concession in Hankow, the Territory of Weihaiwei, etc.

Strategical Importance of the Province of Chekiang

The construction of the S-H-N Line and Tien-Pu (Tientsin and Pukow) Line might have mininized the importance of the Grand Canal, and also the territory on the bank of the Canal. But the construction of the net-work-like highways and railways in Chekiang has also increased the strategic importance of the Province. By the construction and completion of the "8-Province Highway" (See Highway Map of the Provinces of Kiangsu, Chekiang, Anhwei, Hupeh, Hunan, Honan and Fukien, published by Bureau of Roads, National Economic Council of China), Chekiang is in close communication with neighboring provinces, and also the National Capital by convenient means of communications.

It is to be remembered that during the Sino-Japanese "Undeclared war" in Shanghai, when the Chinese reenforcements from the north were unable to cross Pukow due to the presence of the Japanese gunboats, the only way for the Chinese reenforcements to reach Shanghai was by the route of Kiangsi-Chekiang. But at that time the highway had not yet been completed, so it took a month for the Chinese reenforcements to reach Shanghai—when it was apparently too late to save the situation. We are further reminded that both Great Britain, after the Opium War with China in 1842, and Belgium, after the "scramble of Concessions" in China in 1898, made repeated attempts to wrest some territorial concessions in Chekiang, apparently in view of the geographical location and importance of the Province. At present, China's first military aviation school is also situated in the Province. (See the Map.)

Apparently, it is due to the growing strategic importance of the Province that has caused the Japanese to be most unwilling to hand over the concession to China when the lease had expired, and when other powers are returning their concessions to China; and the same reason must have animated the Japanese to demand renewal of the concession in Hangchow. This instance together with the Japanese intention, determination and efforts to hold and make the Hongkew Section of the International Settlement in Shanghai a Japanese concession—as witnessed by the construction of two million dollars worth of fortifications—indicates more clearly than anything else the Japanese "territorial designs" in China!"

"A Dangerous Precedent"

By yielding to Japanese demands, Nanking is merely setting up another obstacle to the further rendition of the foreign concessions in China, and is merely creating a "dangerous precedent"! The Japanese concession in Soochow, which also is due to expire soon, is likely to be renewed!

Nanking, April 19, 1935.

Japanese Reduce Interest on Nishihara Loans

RECENT Tokyo messages stated that the reduction of compounded interest, now in arrears, to the equivalent of the principal of each obligation will be agreed to by the Japanese Ministry of Finance's Department of Deposits in the readjustment of Chinese loans made by banking syndicates with Japanese Government funds, among which the most prominent are the so-called Nishihara loans. The Department will also agree to the allocation of yearly instalments to the redemption of the principal instead of that of the interest, thus reducing further interest payments. Rengo states that these methods have been widely adopted by Japanese industrialists who have made adjustments with the Nanking government for defaulted loans but have been shunned by the Government because they came in conflict with the regulation governing the operations of the Department of Deposits. Loans totalling more than Yen 100,000,000 have been adjusted by similar means since Dec. 12 last year when Rokuyo Takagi, vice-president of the Sino-Japanese Industrial Company concluded an agreement with the Nanking Government.

The so-called Nishihara loans were principally concluded with the Communications Department at Peking in 1918, when the political power was in the hands of the Anfu faction. The loans amounted to about Yen 300,000,000 and were ostensibly mostly to be used for the extension of railways and forestry in Manchuria and North China, but were as a matter of fact largely squandered or used to buy off political opponents; also used to oppose the Southern revolutionary movement in Canton. A history of these loans was printed in *The Review* of May 19 and May 26 last year.

Australia to Send Commercial Secretary to Japan

Dispatch of a Commissioner of Trade to Japan has been proposed by the Advisory Commission on Far Eastern Trade of the Australian Government, according to an official dispatch received in Tokyo, April 17, by the Foreign Office from Kuramatsu Murai, Consul-General in Sydney.

Yen 37,000,000,000 in Bonds and Shares Now Held in Japan

Debentures held in Japan on April 1 totalled approximately Yen 37,000,000,000, a survey by the Tokyo Stock Exchange, made public April 17 revealed. Shares accounted for Yen 18,967,000,000 and bonds for Yen 18,147,000,000, whereof Yen 7,864,000,000 were state issues, Yen 2,887,000,000 were local, and Yen 4,867,000,000 were company debentures. Foreign bonds amounted to Yen 3,329,000,000, according to the survey.

Royalty Attends Siamese Dance Troupe's Premiere

Prince Yasuhito Chichibu and Princess Chichibu headed a list of 700 Japanese royalty, nobility and notables who attended the Tokyo premiere of the Siamese Royal Dance Troupe in Tokyo April 16.

Government Seeks Support for Projected "Brain Trust," But Army Gives Warning

The Government on April 20 directly appealed to the Minseito party, through Mr. Chuji, Minister of Commerce and Industry and concurrently President of the party, to support the projected National Policy Council.

A high Army officer April 20 served warning on the Government that the military would not tolerate any attempts to utilize the National Policy Council, Japan's "brain trust", to strengthen the position of the Cabinet. The declaration, which was made by Major General Tetsuzan Nagata, Director of the Military Affairs Bureau of War Office, in an interview with Shigeru Yoshida, Secretary-General of the Cabinet, added the Army to the list of obstacles remaining to be overcome by Premier Keisuke Okada. Maj. Gen. Nagata informed Mr. Yoshida that the Army was taking a very serious view of the projected Council, and that the personnel of the body should be consistent with the importance of the task to be undertaken by the "brain trust".

The indications are that the Government intend to include five Army and Navy Officers on the Cabinet Bureau of National Policy Investigation. The Seiyukai party in the meantime remains adamant in its opposition to the Council.

Kyoto Professor, a Minobe Disciple, Is Suspended

The Kyoto University authorities have decided to suspend Professor Muneta Watanabe, lecturer in constitutional law. The authorities decided on the step because, an official of the University said, Dr. Watanabe's theories were in accord with Dr. Tatsukichi Minobe's thesis that the Emperor is not the State, but merely an Organ of the State. A member of the Faculty said that the decision to suspend the professor was stimulated by instructions on the subject issued by the Ministry of Education. Prof. Ushijiro Satoh of Tohoku University has been invited to take the chair vacated by Dr. Watanabe.

Yasuda Accepts Bank of Taiwan Post, Replaces Man Facing Bribery Charge

Jiro Yasuda, former vice-president of the Industrial Bank of Japan, April 20, accepted the post of governor of the semi-official Bank of Taiwan, which has been vacant since the resignation of Shigeru Shimada, who is under indictment on a charge of bribery. Mr. Shimada was indicted on Dec. 27 last year, with 15 other persons, including two Ministers of State, in connection with the scandal commonly known as the "Kuroda Affair"—which caused the downfall of the Saito Cabinet in July last year. The case had its origin in the disposition of rayon shares held by the Suzuki firm, which crashed in 1927.

American Firms Makes Huge Purchase of Anti-Bug Herbs

W. M. Hosken, president of W. M. Hosken and Co., New York, visited Japan last week in connection with intended importation of Japanese pyrethrum to the United States. Pyrethrum is the essential ingredient in anti-bug preparations. Hosken and Co. are also large distributors of cinchona bark and quinine. The Japanese newspapers stated that Mr. Hosken deposited $1,000,000 with the New York branch of the Bank of Taiwan in connection with the pyrethrum deal.

Japanese Iron and Steel Exports Exceed Imports

For the first time in the history of modern Japan, exports of steel and iron products last year exceeded imports. The Ministry of Finance reports that outgoing shipments were valued at Yen 125,823,000, whereas steel and iron articles to a value of only Yen 110,898,000 entered the country. Exports consisted mostly of automobile parts and accessories, electrical and textile machinery and railway equipment. These were mostly destined to the South Seas, India and Manchukuo.

Japan's foreign trade in the middle of April resulted in an unfavorable balance of Yen 10,932,000, with exports totalling Yen 74,157,000 and imports, Yen 35,089,000. The excess in imports since January was Yen 184,297,000.

Woman Doctor Appointed Head of Hot Springs Bureau

Dr. Misao Yashima, 26-year old woman physician, was appointed April 20 head of Japan's first hot springs advisory bureau, which will open in Tokyo Station, May 1.

Foreign Office Officials Discuss Manchukuo, Soviets and Australia

Discussions of Japan's relations with Manchukuo, Soviet Russia and Australia featured the fourth meeting April 19 of high Foreign Office officials, which lasted for four hours. Mr. Tani, Counsellor of the Japanese Embassy in Hsinking, reported on the latest political developments in Manchukuo, including Soviet-Manchukuo relations after the transfer of the North Manchuria (Chinese Eastern) Railway; Manchukuo's attitude towards the projected tri-partite commission for the settlement of border disputes with Russia and the new State's preparations for the proposed abolition of Japanese extraterritoriality. Later, Mr. Hirota, Foreign Minister, explained to the conferees the purpose of the goodwill mission to Australia that will be carried by Katsuji Debuchi, former Ambassador to America, who will leave Japan in May. Measures for the maintenance of markets for Japanese products in India, the Near East and the South Seas were also discussed.

Japanese Trade Council Discusses Discrimination

Measures designed to combat foreign discrimination against Japanese goods are being discussed at the fifth annual general meeting of the Trade Council now in session in Tokyo. A basic readjustment of Japan's commercial relations with other nations and the expansion of the Gaimusho Bureau of Commercial Affairs is also to be discussed.

Measures to be taken by Japan in case the European "gold bloc" collapses were discussed at a joint meeting of bankers and government officials held in Tokyo this week. The meeting was sponsored by Korekiyo Takahashi, finance minister, who last year advocated the holding of similar gatherings regularly.

Japanese Government Approves of Yarn Export Group

The Japanese Government April 20 officially sanctioned the organization of the Association of Cotton Yarn and Piecegoods Exporters to South and Central America, which will be charged with the task of controlling the exports of cotton goods to those areas. The Association will have its offices in Osaka, Kobe and Yokohama, where exporters will be able to obtain export licenses. The Association will also seek to promote Japan's trade in cotton goods in the South American markets.

Million-Yen Fine Demanded for French-Syrian Smuggler

Imposition of a Yen 1,653,141.66 fine on Nure Tecla, a Syrian jeweler, who was arrested by the Kobe Water Police in September last year, was demanded April 22 by the prosecution in the Tokyo District Court. Tecla, who claims French citizenship, is alleged to have connived with Japanese at smuggling precious stones into Japan. He was arrested while out on bail following an indictment on a similar count earlier in 1934.

Leading Tokyo Journal Strongly Criticizes American Manufacturers

Efforts made by certain American manufacturing interests to exclude Japanese goods from the United States were strongly criticized April 14 by the Tokyo *Jiji*. "Notwithstanding efforts made by our businessmen to placate America by controlling the amount and the prices of the exported goods, the United States do not slacken their pressure upon our products," the editorial said.

[illegible] from [illegible] in 19[illegible] in the [illegible]y of the Japanese Govern[illegible] of Mr. Tokonami's name [illegible] the result of an extended examination [illegible] former member of the Lower Chamber, by [illegible] the Tokyo District Court. The examina[illegible] in connection with the trial of Magoji Nojima, [illegible] Major, on the charge of having violated the [illegible] by issuing a pamphlet accusing Mr. Tokonami of [illegible] bribed by the Chinese general. Mr. Tokonami [illegible]ed that the attacks on his personal integrity con[illegible] members of the Lower Chamber were [illegible] to embarrass the Government. The attackers used [illegible]'s pamphlet as the basis of their accusations.

⁂

Dutch-Japanese Parleys to Be Reopened

The reopening of two adjourned conferences—one between the Netherlands East Indian and Japanese Governments, the other between the shipowners of the two countries—was agreed upon at a meeting in Tokyo April 18 of Dr. G.H.C. Hurt, Director of the Economic Affairs Bureau of the Netherlands East Indies, and Koki Hirota, Japanese Foreign Minister.

Enforcement on May 1 of regulations providing for supervision by the Government of the Netherlands Indies over all forms of communications is reported in an official message received recently by the Tokyo Foreign Office from the Japanese Consul-General in Batavia. The measure extends to postal, telegraph and telephone communications and transportation, and aims to suppress illegal communication between the population of the N.E.I. and foreigners.

⁂

Alleged Descent from Monkeys Disturbs Japanese Deputy

A Tokyo despatch to the *Chicago Tribune* March 23 quoted Deputy Mikami of the Seiyukai party as saying that it is an insult to the Japanese to insinuate that they had descended from monkeys. The remark was made in connection with the submission of a motion to forbid the teaching of Darwin's theory of evolution in all schools. The statement was made in connection with a dispute regarding the constitution, which arose as a result of charges instituted against Dr. Tatsukichi Minobe, an upper house member, who claimed the emperor is an institution and not a god as far as the law is concerned.

Many deputies supported Mikami. They argued that inasmuch as the emperor is the son of heaven and all Japanese are members of his family, they also are direct descendants of heaven and not of monkeys. Mikami also objected to the teaching of the theory that the Japanese came from the South Seas. Genji Matsuda, minister of education, in a reply said he did not know such theories were being taught, and he promised to investigate.

Japanese Engineers Rapidly Remold Old C. E. R. Railway

Promptly following the taking over of the Chinese Eastern Railway from the Soviet authorities, the Manchukuo administration is rapidly remolding the line after the pattern of the South Manchuria Railway, and standardizing the gauge of the southern section of the railway so that direct connections may be made with the South Manchuria Railway. A special commission is reported to have already been appointed, entirely composed of Japanese engineers, to supervise the work of standardization. All the requisite supplies for the change are ready and the actual work is expected to start soon and be completed in a short time.

C.E.R. Now Purchases Materials in Japan

Business circles in Harbin will be seriously adversely affected by the new purchasing policy of the present management of the Chinese Eastern Railway, reports from that city reveal. A decision was stated to have been made by the new administration of the railway to order all the principal materials required by the railway from firms in Japan instead of from Chinese suppliers in Harbin as hitherto has been the practice.

Mr. Yurenev, Soviet Ambassador, informed Mr. Hirota, Foreign Minister, April 19 when that he would visit the Kwansai district for one week to investigate Japanese products that may be purchased by Manchukuo for shipment to Russia in part payment of the purchase price of the North Manchuria (Chinese Eastern) Railway.

Manchukuo to Inquire Into C.E.R. Retiring Allowances Payments

Alleging that prior to the transfer of the Chinese Eastern Railway the Soviet Administration of the Railway had illegally paid retiring allowances to the Soviet employees in excess of about $300,000, the Manchukuo authorities are reported to have formed a special commission of inquiry to look into the validity of such payments. It is stated that all such disbursements will not be recognized and will be deducted from the sale price of the railway.

S. M. R. Needs Yen 340,000,000 for Construction of New Lines

The *Japan Advertiser* of April 12 called attention to the fact that the South Manchuria Railway Company must raise Yen 340,000,000 in three years, commencing the present fiscal year, for construction of new railways and the improvement of railway lines entrusted to it by the Manchukuo Government for control and management. According to its articles of association, the company is able to float debentures to an extent of twice its paid-up capitalization and not exceeding its authorized capitalization. This leaves room for only Yen 262,000,000, and considering this, the company's directors are thinking of revising the Articles of Association so that the company can issue debentures to an extent of a combined total of capitalization and undivided profit. The matter is subject to the Government. If approved, the company would be able now to issue Yen 220,000,000 more, because its legal and other reserves combined total that amount.

Oil Monoply May Be Only Forerunner, U. S. Protest Says

The United States April 18 filed another protest with Japan against the Manchukuo oil monopoly. Administration circles emphasized stongly that the repeated American protests contesting the right of Manchukuo to establish such a monopoly rest upon a much broader base than merely the American intesest in oil sales in the Orient. The United States feels, it was indicated in Washington, that a vital principle is involved which may exert a profound effect upon relations in the Pacific. If Manchukuo is permitted to establish an oil monopoly, it is felt, similar monopolies may later be established with regard to other products and this policy ultimately may be carried to such lengths that there may be no free trade left in Manchuria.

A message from Tokyo April 19, stated that the Japanese Government regards the Manchukuo oil question, on which it has received strong protests from Great Britain and the United States, as "liquidated." Foreign Minister Hirota informed the British and American Ambassadors, orally, that Japan's position concerning the conferment by the Manchukuo Government of an oil sales monopoly on a Japanese-controlled company has already been defined in Japan's previous replies to representations on the matter.

Fushun Oil to Be Sold Through New Company in Shanghai

Japanese merchants in Shanghai have organized the Ying Hwa Company to market the petroleum produced at Fushun to undersell the American, British and Russian products in Shanghai. While the uniform price of the three firms is $7.20 per case, the Ying Hwa Company will offer their products at $7, with special discounts for retail business. The *Sin Wan Pao* says the British, American and Soviet oil firms are carefully watching the situation.

The *Jiji* states that the foreign oil companies are "adjusting" their stock as the result of the monopoly, but will not withdraw from Manchuria.

Oil Refinery to Be Built in Chosen

Organization of an oil concern, capitalized at Yen 10,000,000 before the end of next month been decided by a group of financiers headed by Keizaburo Hashimoto, President of the Japan Oil Company. A refining plant to cost about Yen 15,000,000 will be built by the concern near Genzan. The plant will refine lamp-oil, and light and heavy oils, all of which will be entirely for Chosen consumption.

Japanese Army Finds "Error" in Saghalien Boundary Line

The *Tokyo Jiji* of April 19 stated that an error had been found in surveying the national border separating the Japanese and Russian half of Saghalien Island. It is alleged that the Soviet territory is extended about two kilometers into Japanesee territory due to a surveying error, which was discovered as the result of a more scientific survey recently conducted by the Japanese Army. The *Jiji* commented that it would be interesting to see what attitude Japan would take towards Russia regarding the matter.

Nanking to Hold Child Health Contest

A total of 1,095 children in the capital have registered their names for participation in the Child Health Contest scheduled to be held on May 12 under the auspices of the Public Health Bureau. A physical examination of the participating children will be held from April 25 to 30 for the carrying out of which two doctors and eight nurses have been assigned. Beautiful prizes are awaiting the winners, already many of which have been donated by various government and private organs and individuals.

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COMMENTS ON CURRENT EVENTS

May 11 -- 24, 1935

RECEIVED G/2 W. D. JUN 18 1935

1. The National Government
    Ambassador to Turkey
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    National Transportation Conference
2. Sino-Japanese Relations
3. British Railway Mission
4. Sino-Siamese Discord
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6. Embassies for Legations
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8. The Panchan Lama
9. Japanese Activities in Inner Mongolia

1. The National Government.

Ambassador to Turkey.

According to information from the Ministry of Foreign Affairs, General Ho Yueh-tsu, Chinese Minister to Turkey, presented his credentials to Mustapha Kemal Pasha, President of the Turkish Republic, on May 16th. General Ho is a native of Ninghsiang, Hunan Province, and after a military education in Japan served in various important positions in China (see G-2 Report No. 9063, item 1). No special reason is known for his appointment to a diplomatic post.

Sino-French Agreement.

After several months of negotiations an agreement has been signed by M. Wilden, the French Minister to China, and Mr. Wang Ching-wei regarding commercial matters which have been under dispute between China and Indo-China. This brings to a successful conclusion the steps which were first instituted for tariff rates under the Franco-Chinese convention of 1930, which took place under the regime of Dr. Wang Cheng-ting (C. T. Wang) as Minister of Foreign Affairs.

National Transportation Conference.

The National Railway Transportation Conference convened by the Ministry of Railways opened in Nanking on May 16th with over two hundred delegates present. The announced purpose of the meeting is to lay out measures to increase the efficiency in transportation on Chinese Government railways and to assist in the handling of commercial business.

This conference is in line with the reconstruction policy of the National Economic Council and will no doubt discuss many of the suggestions presented at the meeting of the National Through Freight Traffic Conference held last December (see G-2 Report No. 8991, item 1).

The Ministry of Railways is having rather hard sledding just at this time. The head of the Ministry, Mr. Ku Meng-yu, has tried to resign and is now "sick" in the Western Hills near Peiping. His assistant, Mr. Tseng Chung-ming, is carrying on in his absence and is not having an easy time. Neither of these men are personal appointees of Chiang Kai-shek and it is known that there have been points at issue regarding certain railway construction questions.

2. Sino-Japanese Relations.

The last two weeks have seen considerable activity in Sino-Japanese negotiations. Mr. Yin Tung, the busy Managing-Director of the Peiping-Mukden Railway who has been acting as an unofficial diplomatic agent for Nanking ever since the Tangku Truce, has been in Tokyo attending traffic conferences and endeavoring to straighten out what are reported to be certain matters relative to air lines between North China and Manchuria. He had hardly arrived in Japan and given out an interview in which, according to Japanese despatches, he stated that Sino-Japanese economic cooperation should not be subject to interference by the military, when the officials of the Kuantung Army delivered an ultimatum to General Yu Hsueh-chung regarding some actual or alleged troop movements in the Demilitarized Zone which were contrary to the Tangku Truce. Details of this case are not known but Chinese sources state that whatever the Japanese demands, they were complied with by the Hopei Chairman.

To disrupt further the smooth functioning of Sino-Japanese negotiations came the statement on May 8th of Major-General Seishiro Itagaki, Vice-Chief of Staff of the Kuantung Army. He is quoted by the press as stating that there can be no possibility of replacing the Tangku Truce by any agreement of a permanent nature until China recognizes Manchoukuo. This was followed by the assassination in the Japanese Concession in Tientsin of two Chinese newspaper men who were known to be operating papers supported by Japanese capital. Immediately Major T. Takahashi, Assistant Military Attache in Peiping, called upon General Yu Hsueh-chung and accused the Chinese officials of having been connected with the affair.

Japanese press despatches from Peiping, which appeared in Dairen papers, are extracted and given below as indicative of Japanese Army feelings regarding the matter:

> "'The two assassinations on the same night were doubtlessly instigated by Chiang Kai-shek', said Major Takahashi. 'The Japanese civil and military authorities in North China have investigated the whole affair energetically since the night of the murders, and we have almost finished the probe. We will present the evidences gathered to Colonel Sakai as soon as he returns.
>
> "'So long as Chiang Kai-shek sets assassins upon his own countrymen who are friendly to Japan, the despatch of even 100 ambassadors from Tokyo to China will not advance the cause of Sino-Japanese amity and rapprochement,' declared Major Takahashi."

"The assassin who murdered two Chinese newspaper publishers in the Japanese concession at Tientsin recently was paid $5,000 Nanking yuan under an order from Chiang Kai-shek, it was disclosed by evidences lately secured, it is reported here. Mayor Chang of Tientsin and Governor Yu Hsueh-chung of Hopei were also directly involved in the night murders, it is said.

"Chiang Kai-shek is reported to have ordered Yu when the latter was visiting Hankow last month to 'get rid' of the two Tientsin publishers, as the latter's pro-Japanese utterances were distasteful to Chiang. After Yu's return to Tientsin both Mayor Chang and the Chinese gendarmerie chief at Tientsin were consulted on the details of the planned assassination, the reports declare.

"After the double murders on a same night it is understood the assassin was paid and was escorted to safety."

That the Japanese have any direct proof of Chiang Kai-shek or in fact any high Chinese official being implicated in the murders is very doubtful. The murders were no doubt planned by one of the many secret societies which are active against men whose pro-Japanese activities are known to all. The local press in Tientsin and Peiping has been relatively quiet regarding the matter and particularly regarding the Sino-Japanese angle of it. It is certain however that whatever are the feelings of the Japanese diplomats and their apparent desire to bring about friendly relations between the two countries, these feelings are not shared by the Japanese Kuantung Army.

It is quite possible that this little flurry caused by the Japanese military is their way of indicating opposition to the elevation of the legations of Japan and China to embassies, a move which was apparently made without much advance notice to the General Staff.

In the meantime, while the Japanese military are rattling their sabers the diplomats seem to have been busy along other lines as well as strict diplomacy. Considerable progress has been made in readjustment of at least six of the Japanese loans to China in a manner which is apparently satisfactory to both parties. These are known to include the Peiping-Suiyuan Railway loan, the Nanchang-Kiukiang Railway loan, the Tientsin-Pukow Railway loan, the Shantung Provincial loan, the Telephone loan and the Second Telegraph loan. Reliable information indicates that the next loan agreement to receive attention will be the Peiping-Hankow Railway loan. The exact details are not known regarding the readjustment agreements but there can be no doubt that one of the points which the Japanese have been pressing upon Nanking is a definite settlement with reference to Japanese loans to China.

3. British Railway Mission.

Brigadier-General Frederick Hammond, the well known British railway expert, accompanied by Mr. L. J. L. Lean and Mr. F. J. M. Taylor of the Great Western Railway, have arrived in China at the request of the Ministry of Railways. The mission expects to remain here for about four months for the purpose of inspecting the Chinese Government railways and submitting recommendations as to administration, operation and construction of the various lines. Together with a number of Chinese railway officials, the party left Nanking on May 15th for the purpose of inspecting the southern section of the Peiping-Hankow Railway. After this they plan to proceed to

Peiping. Their future movements will be coordinated by the Ministry of Railways working with a committee from the National Economic Council.

4. Sino-Siamese Discord.

Much feeling has been aroused in China over the reported treatment of Chinese and Chinese business firms located in Siam. The spokesman for the Chinese Foreign Office lays the basis of the trouble at the delay and apparent unwillingness of the Siamese Government to conclude a formal treaty with China upon which the two countries could base customary diplomatic relations. It seems that ever since the last part of the Manchu Dynasty the Chinese Government has been making overtures which have not met with the approval of Siam.

The Shanghai Rice Merchants' Guild has announced that as a protest against the ill treatment of overseas Chinese in Siam, the Shanghai rice merchants will discontinue the purchase of rice from Siam. There is one large shipment which has already been purchased and which will not be sent back, according to officials of the Rice Guild, but they announce that the boycott will start next month.

Reports from Tokyo indicate that discussions are being held between General Chiang Tso-pin, Chinese Minister to Japan, and the Siamese Minister to Tokyo regarding the opening of diplomatic relations between China and Siam. Foreign press despatches indicate that a general treaty of amity will be the first matter for consideration and that this will be followed by a commercial treaty to settle outstanding disputes. It is not believed that the Siamese Government wishes to conclude any treaty with China along these lines. The Siamese are afraid of Chinese business competition and it is considered very doubtful that any agreement will be concluded between Siam and China in the near future.

5. South Manchuria Railway.

According to official figures just published in Dairen, the South Manchuria Railway earned approximately 275,000,000 yen during the fiscal year ending in March 1935. The same reports give the gross profits expected as 46,000,000 yen, which should enable the directors to declare an eight per cent dividend.

The earnings of the various S.M.R. activities were given as follows:

Railways	Yen	131,000,000
Coal Mines	"	83,000,000
Shale Oil.	"	5,000,000
Harbors	"	17,000,000
Affiliated organizations .	"	22,000,000
Other sources.	"	11,000,000
Total income	"	275,000,000

In comparison with figures of previous years the results for the fiscal year just completed show not only that the railway operation total has been the highest in the history of the South Manchuria Railway Company but that the gross earnings have also reached a new high level.

6. Embassies for Legations.

It seems that the wheel of diplomacy is slowly turning with the result of raising the diplomatic status of China higher in the family of nations. The move was started by Italy in October 1934 when it was announced that Italy and China would elevate their Legations to Embassies. This move was one of the means whereby the Italian Government stole a march on the other nations with the certain purpose of entrenching more strongly than ever the Italian aviation projects in China (see G-2 Report No. 8935, item 3). Apparently this action on the part of Italy was made without consulting the other nations maintaining diplomatic missions in China.

The next step came on May 17th when the Ministry of Foreign Affairs in Nanking announced that as the result of negotiations between the Chinese and Japanese Governments the matter of simultaneous elevation of the Chinese and Japanese Legations to the status of Embassies had been finally decided. It is stated that General Chiang Tso-pin, the present Chinese Minister to Tokyo, and Mr. Akira Ariyoshi, the Japanese Minister to Nanking, will be appointed Ambassadors.

On the same date the Chinese Foreign Office announced that the Governments of Great Britain and the United States had also decided to elevate their missions to the rank of Embassies. The present British Minister will remain as Ambassador and despatches from the United States report that Mr. Nelson T. Johnson is to be the first American Ambassador to China.

The Germans are following suit and will also raise their Legation to an Embassy. The present Minister, Dr. Trautmann, will be appointed Ambassador. Despatches from Paris indicate that France will also raise her diplomatic mission but that the measure will not become effective until the return of M. Laval from Poland.

The effect in general on the Chinese by this move of the foreign nations concerned is favorable as they feel that China has been given more face and is regarded as a more important country.

7. Sino-Mongol Relations.

The press reports to the effect that the Mongolian Political Conference closed on April 27th have been proved untrue and personal investigation in Suiyuan Province and Inner Mongolia by the Assistant Military Attache has shown that such reports were a deliberate attempt on the part of the Suiyuan authorities to discredit the efforts of the Mongols. The Council is still in session and the preliminary meetings were only completed on May 16th. In these meetings practically all questions were decided and the final session which opened on May 17th will last only long enough to confirm what has been thrashed out fairly well beforehand.

The status of Sino-Mongol relations is not promising due to the activities of the Suiyuan authorities acting under the orders of Yen Hsi-shan. They continue to place every obstacle in the way of closer relations between the Mongols and the Nanking Government and have tried every means short of force to prevent many of the influential Mongol Princes from being present at Pailingmiao. As this report is being written General Ho Ying-chin, the Minister of War, is in Shansi for the alleged purpose of inspecting troops. Actually he has gone there to try to arrange with Yen Hsi-shan for a change in his attitude toward the Mongols.

Yen, it must be remembered, controls not only his own province of Shansi but also Suiyuan. This he accomplishes by having his soldiers under General Wang Ching-kuo stationed throughout Suiyuan Province. Fu Tso-yi, who the Mongols say is not averse to a friendly settlement with them, has only a few men of his own and cannot make a move without Yen's approval. What General Ho can do to influence Yen is not known but it is feared that he will be unable to bring enough pressure to bear to alter materially the relations of Shansi and Suiyuan with the Mongols.

The outstanding cause of trouble is of course the question of the tax on opium which passes through Mongol territory and from which the Mongols have hitherto received no revenue. Several schemes have been proposed (see G-2 Report No. 9096, item 5) but all have fallen through apparently due to irreconcilable objections on the part of one or the other of the interested parties. During the past few weeks and while preliminary conferences have been going on at Pailingmiao, a new plan has been evolved there of which this office has been given the details by Mongol officials. The latest proposal is stated to have the approval of all parties and provides in general that:

(1) The commercial firms concerned in transporting opium from Kansu and Ninghsia are to have the choice of bringing the opium into China through either Suiyuan or Chahar Province.

(2) Stations are to be established along the caravan routes at which will be posted representatives of Suiyuan and the Inner Mongolian Government to check the amount of opium in each load.

(3) A tax of thirty-two cents silver will be collected on each ounce of opium. Eight cents of this will go to the Mongols, and twenty-four cents to the Suiyuan Government for opium going into that province. For opium going into Chahar, the Mongols will receive eight cents also. The amount paid to Chahar has not been definitely decided due to the fact that investigation is now being made as to the additional cost to dealers because of the longer caravan haul. When this has been figured out the Chahar percentage will be announced.

It can be seen from the above that the Suiyuan authorities lose only four cents on each ounce since they used to get twenty-eight cents. The Mongols get eight cents instead of nothing. The Suiyuan merchants are the losers as they pay thirty-two cents on each ounce - four cents more than they have been paying.

What arrangement will be made by the Chahar merchants remains to be seen but the Mongols look for no trouble here since the lucrative opium trade has been shut off from Kalgan for some time now and all concerned are anxious to re-establish it. The Chahar officials are very much concerned about the trade as they have been suffering a number of lean years since the Urga caravan route has been closed. They have sent two delegates, Dr. Liu Tung-hsuan, formerly head of Northeastern University in Mukden, and Ni Ma Ao T'e So Erh, the Amban of Eastern (Left) Ujumchin Banner, to Pailingmiao. These men are leaving in a few days for a trip to Ninghsia and Kansu for the purpose of arranging with the authorities there to have opium shipped by a more northern route into Chahar in such a manner that the Suiyuan Government will not be able to influence its destination either by political or military means.

Thus is can be seen that the Sino-Mongol situation is a very complex one and one of the most difficult to solve. Yen is opposing the wishes of the Nanking Government, the Mongols, Chahar and even many of the Suiyuan officials. Nanking does not wish to use force because such is needed elsewhere and no one else has enough troops to oppose Shansi. Above all, none wish to cause internal trouble in the face of an ever increasing necessity for unity to oppose Japanese pressure. Yen knows these things and is using this knowledge to his own advantage.

Aside from the tax question the Mongolian Political Council has been busy with plans for the location of a permanent seat for the Council offices away from the influence of the Lamas at Pailingmiao. Other questions have included the establishment of schools and hospitals and the reorganization of various banner troops. Generally it can be said that despite the opposition of Shansi and Suiyuan and their influence on some of the Mongol leaders, some progress has been made by the Mongolian Political Council.

The moving spirit in Inner Mongolia is still Te Wang, Prince of Western Sunnit Banner, who as Secretary of the Council exercises the directing hand in all important matters. From personal conversations with him and other Mongol leaders present at the Pailingmiao meetings, this office is confirmed in the belief that the Mongols desire cooperation with Nanking and that if it were not for Yen Hsi-shan relations would be established very quickly on a basis which would be satisfactory both to the Central Government and to the Mongols.

8. The Panchan Lama.

A radio message has been received by the Mongol officials at Pailingmiao to the effect that the Panchan Lama has been having difficulties with the Chinghai Province authorities at Sining. While the population of Chinghai is not predominantly Mohammedan, the officials are members of that creed, most of them being men formerly in authority in Kansu, that stronghold of the followers of the Prophet.

The Panchan Lama has quite a good bodyguard, fairly well drilled and equipped. The outstanding feature of their uniform is a "Sherlock Holmes" hat which like most of the outfit must have been made along British lines. This guard always goes with the Panchan. The last few days in Sining have seen objections on the part of the Mohammedan authorities to this body of armed troops in their midst. They contended that a "Living Buddha" was a man of pease and had no use for armed soldiers. So, according to information received by the Mongolian Political Council, the Sining officials have disarmed the Panchan's bodyguard and are keeping their rifles.

The exact reason for this is not known. Perhaps the one given by the Chinghai authorities coupled with the fear that the Panchan might settle permanently in their province should he be unable to return to Tibet may be the cause. Then it may be an agreement between the present rulers in Tibet and Chinghai to keep the Panchan from returning to Lhassa, since the former would like to rule without help from the Panchan or any officials from Nanking which may accompany him now that he has thrown in his lot with the Chinese Government. Another reason may be that due to the border feud that has existed for years between Tibetans and the people of southwest Chinghai, the Chinghai authorities are not averse to causing trouble to any Tibetan, to say nothing of such an important one as the Panchan.

At present the true facts are not known but perhaps later the "water will recede and the stones appear" as the Chinese say, and the truth will be known. Whatever the actual cause matters little just now to the Panchan Lama, marooned in Sining without an armed bodyguard. His chances for making a triumphal entry or in fact any entry at all into the holy city of Lhassa appear no brighter than before.

9. Japanese Activities in Inner Mongolia.

Even prior to the Japanese occupation of Jehol they were casting longing glances at Inner Mongolia. Their interest in the past was a purely strategic one since Inner Mongolia, because of its geographical position, was important as territory between Siberia and Manchuria and as such a certain line of communication or perhaps even terrain over which operations might take place in a war with Russia. Following the occupation of the Chinese Province of Jehol, however, the Japanese began to have other worries. With the inclusion of Jehol in the newly formed Manchoukuo there came the question of a boundary to be protected against possible Russian influence from Outer Mongolia.

The Japanese plans for Inner Mongolia are believed at present to consist in an effort to exert a "cultural and economic" influence in that territory rather than in having designs on its occupation. It is believed that they would like to set up in Inner Mongolia a series of buffer states between the Jehol boundary and that of Outer Mongolia. In Dolonnor they have already set up a Japanese guided independent "hsien" or district. Japanese advisers to the local Chinese Government are located there as well as a detachment of Manchoukuo police and a "Cultural and Economic Mission" of seven members. The local Chinese are allowed to have their own troops which do not wear the Chinese insignia. Officials there state that they are not under Manchoukuo but are an independent district and that Manchoukuo is helping them to achieve their independence. This condition has existed for over six months.

Japanese "cultural missions" have been sent to other places as well. There is one at the palace of the Prince of the Left Ujumchin Banner, northeast of Dolonnor. Among its equipment is included a 50 watt Japanese radio station. Also about a hundred miles north of Dolonnor at the Palace of the So Wang of Abagar Banner is located another mission. This is composed of about thirty Japanese dressed as Lama priests. Knowing the privileges extended to priests, whose robe is passport enough in itself, the Japanese have established themselves at the temple of the palace. These so-called priests have a 100 watt radio station with them which fills the air and makes communication difficult for the smaller sets used by the Mongols at Pailing-miao and other places.

Included in each of these missions are some medical members who try to win the good will of the Mongol officials by giving them treatment for various diseases. The medical side has been stressed in the third mission which is located near Te Wang's palace in Right Sunnit Banner. This mission is the least successful of the three since treatment of an important official resulted in his death last week. Mongols and foreign missionaries who live in the territory between Dolonnor and Te Wang's palace report that trucks frequently pass between these two places.

The latest Japanese effort is to send a party from the South Manchuria Railway to Eastern Inner Mongolia on an inspection trip. This party consists of about twelve persons under a Mr. T. Takayama, all of whom came from Dolonnor in motors via Hattine Sumu (Ha Ta Miao). They expect to spend some four months visiting various places especially the three mentioned above at which Japanese are located. So far as is known no notice of this trip was given to the Chinese authorities and the members of the party do not carry regular passports.

In each case where Japanese have forced themselves upon the Mongols the Mongols have objected. In the case of the mission at the palace of So Wang, the Prince was able to keep them out for several months but at last was forced to give them a place to live. Personal investigation and conversations with each of the Princes in whose territory Japanese are located indicates that the Mongols are opposed to having the missions there and that the Chahar Government as well as Nanking has been notified. The Mongols state that they themselves are not strong enough to oppose the Japanese by force as they fear such action would bring about drastic military retaliation by Japanese troops from Jehol. They have requested the Nanking Government to take some action against the Japanese or to assist the Mongols but no hope of either request materializing appears possible.

This office still confirms the belief that the Mongols would rather remain allied with China if possible and that they look with fear upon any closer relations with Manchoukuo since they all realize that the Manchoukuo sheep's wool but hides the Japanese wolf. The Mongols are indeed in a difficult position and it is hard to see any immediate solution for their dilemma. Meanwhile, increased efforts by the Japanese to influence Inner Mongolia in a "cultural" way may be expected.

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Office of the Military Attache, American Legation, Peiping, China, May 24, 1935 - To: The Chief, Military Intelligence Division, Washington, D.C.

Approved.

W. S. Drysdale
W. S. Drysdale
Lieutenant-Colonel, Infantry
Military Attache

THE CHIEF OF STAFF
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COMMENTS ON CURRENT EVENTS

May 25 - June 7, 1935.

RECEIVED G/2 W. D. JUL 2 1935

1. The National Government
   - Control Yuan Affairs
   - Governmental Appointments
   - Overseas Chinese
   - Opium Commission Abolished
2. Foreign Naval Changes
3. The "Open Door" in Manchoukuo
4. Outer Mongolian-Manchoukuo Conference
5. Sino-Japanese Relations
6. Japan and Inner Mongolia

1. The National Government.

Control Yuan Affairs.

The locations for the offices of the seven Control Commissioners which were recently appointed (see G-2 Report No. 9117, item 1) have been announced by the Control Yuan. These are given for each of the seven districts as follows:

Kiangsu Province	Chinkiang
Kiangsu and Anhwei Provinces	Nanchang
Fukien and Chekiang "	Foochow
Hunan and Hupeh "	Changsha
Honan and Shantung "	Tsinan
Hopei Province	Peiping
Kansu, Ninghsia and Chinghai Provinces	Lanchow

The appointment of these Control Commissioners and their location in places near the largest administrative center of the district is an effort on the part of the National Government to make officials more honest and upright in the administration of their duties and to see that they follow out the policies announced by Nanking. The Commissioners are the modern version of the Censors of the Imperial days who were even able to call the Emperor's attention to his own shortcomings.

Governmental Appointments.

The National Government announced on May 27th that Dr. Chu Hao-hsiang, Director, International Affairs Department of the Foreign Ministry, has been appointed Chinese Minister to Belgium. Mr. Chu was born in 1888 and is a native of Kiangsu. He received his degrees in Politics and Diplomacy in Louvain from 1916-1928 and since that time has been connected with various branches of the Foreign Ministry both in Peiping and Nanking.

Dr. Chu's place in the Foreign Office will be taken by Dr. Wu Sung-kao, one of the Counsellors of that Ministry.

Overseas Chinese.

There is considerable agitation in official circles in Nanking to secure governmental aid for overseas Chinese. In a recent weekly meeting at Central Party Headquarters, Mr. Chou Chi-kang, Vice-Chairman of the Overseas Chinese Affairs Commission and also a member of the Central Executive Committee of the Kuomintang presented three problems for consideration. These he stated to be as follows:

1. Decline of overseas Chinese trade as result of world depression.
2. General anti-Chinese movement in foreign countries.
3. Nationalization policy adopted by foreign governments in regard to Chinese living in their respective countries.

The Overseas Chinese Affairs Commission is urging the National Government to take appropriate measures for relief of the Chinese abroad and also that the Chinese people in general should cooperate with the Government in all ways possible to render assistance to Chinese in foreign countries.

Opium Commission Abolished.

On May 29th the Central Political Council abolished the Opium Suppression Commission and appointed instead an Opium Suppression Superintendent. This post will be held concurrently by the Chairman of the Military Affairs Commission, or in other words by Chiang Kai-shek. This change is expected to simplify the administration but of course puts greater power than ever in the hands of the Generalissimo. Persons connected with the opium suppression work have stated that it was difficult to have a suppression bureau while other bureaus were publishing regulations for the growing and taxing of opium. Perhaps with the new regulations proposed by Chiang Kai-shek for the control of drugs and the suppression authority concentrated under one head some better progress may be made in actually suppressing the opium evil.

2. Foreign Naval Changes.

Admiral Esteva, Commander of the French naval forces in the Far East, arrived in Nanking on May 24th on the French gunboat "Primonquet". Following a tiffin in his honor at the French Consulate the Admiral called upon Admiral Chen Shao-kuan, Minister of the Navy.

Press despatches from London under date of May 22nd state that Rear-Admiral Lewis G. E. Crabbe has been appointed Senior Naval Officer of British Forces on the Yangtze River. Admiral Crabbe has served in the British Navy since 1895 and commanded the "Ophelia" in the Battle of Jutland.

3. The "Open Door" in Manchoukuo.

Each day brings increasing evidence that the Open Door in Manchoukuo is being held open in order to allow foreign firms to go out. As the result of the restrictions placed on foreign business a number of commercial and banking interests have been forced to cease operations (see G-2 Report No. 9036, item 4). Now the obstacles placed in the way of the foreign oil companies has culminated in the decision on the part of at least three large firms to liquidate their interests in the new Empire and cease doing business there. These firms are the Standard-Vacuum Oil Company, the Texas Oil Company and the British Asiatic Petroleum Company.

4. Outer Mongolian-Manchoukuo Conference.

The Outer Mongolian-Manchoukuo Conference for the settlement of the Harha incident (see G-2 Report No. 9117, item 8) finally met for the first time on May 31st. The Mongolian delegates left Urga on May 25th and arrived in Manchouli on May 30th. Members of the Outer Mongolian delegation are:

Mr. Senbowa, vice-minister of war and chief delegate;
Mr. Demba, commander-in-chief of the Eastern Border defence army;
Mr. Toksumu, secretary of the local administration bureau of the Outer Mongolian government;
Mr. Hatondobutashy, Left Banner office representative (was not able to make the trip on account of illness).

The roster of the Manchoukuo delegation includes:

Mr. Lin Sheng, governor of the North Hsingan province and chief delegate;
Major-General Wu Erh-kin, commander-in-chief of the North Hsingan garrison army;
Mr. Masaichi Kanki, director of the political affairs bureau of the foreign office;
Mr. Masatoshi Saito, of the department of defence of Manchoukuo.

It will be noted that there are no Russians mentioned in the Outer Mongolian delegation. This is in line with the policy of the Soviets in allowing the Outer Mongolian officials to handle affairs when possible, stepping in only when questions involving the U.S.S.R. are mentioned. Their policy is in sharp contrast to that of the Japanese who keep a tight rein on the Manchurian representatives under all conditions and apparently decide all matters for them.

At the preliminary conference held on May 31st it was decided that the Mongol language should be used at the Manchouli Conference and that the first formal session should be opened on June 1st, at which time the delegates would be formally introduced to each other.

5. Sino-Japanese Relations.

Of particular interest in the field of Sino-Japanese relations has been the recent conference in Hsinking between Lieutenant-General Yoshijiro Umetsu, Commanding Officer of the Japanese North China Garrison, General Senjuro Hayashi, the

Japanese Minister of War who is now on a visit to Manchuria, and General Jiro Minami, Commander-in-Chief of the Kuantung Army. This conference was with reference to affairs in North China. Despite the protestations on the part of the Japanese diplomats to the effect that they desire better relations with China and the "friendly gesture" of raising the Japanese Legation to an Embassy it is evident that the strong arm of the Kuantung Army will be used as well in dealing with the Chinese.

A careful analysis of the Japanese methods would seem to indicate that instead of the disagreement between their War Office and Ministry of Foreign Affairs, which they are so willing to make outsiders believe exists, the two actually may be working together in the pursuance of a well laid plan for domination in China. After some overt act of the military the diplomats follow it with a remark something like this - "Of course we cannot control the actions of the bad Kuantung Army but now it is all over we can be friends and settle our difficulties in an amicable manner". However, it should be noted that never have the diplomats failed to take advantage of what the Army has secured for them, even though the Army often treats them with very little consideration.

This time the diplomats have taken the lead in making certain demands upon the Chinese Government which apparently have been opposed by Chiang Kai-shek. Then the military stepped in, following some disturbances in the Demilitarized Zone in North China and the murder of two Chinese editors of Japanese subsidized papers in the Japanese Concession in Tientsin (see G-2 Report No. 9126, item 2).

On the 29th, Major Takahashi, the Japanese Assistant Military Attache in Peiping, and Colonel Sakai of the Japanese Garrison in Tientsin, called on Ho Ying-chin and presented him with certain demands. These were first given in verbal form but General Ho said that they should be written if he was to forward them to Nanking. The following written demands then were given him:

(1) Dissolution of the North China "Tang Pu" (Kuomintang Political Office);

(2) Dissolution of "Blue-Shirts" and other terrorist or secret organizations (see G-2 Report No. 9010);

(3) Withdrawal of the 3rd Regiment of Military Police, National Government organization under Colonel Chiang Hsiao-hsien, a relative of Chiang Kai-shek; reorganization of the Disciplinary Department and the Political Training Section of the Peiping Branch Military Council; closing of the Diplomatic Research Institute of the Northeastern Provinces organized here by Chang Hsueh-liang;

(4) Immediate cessation of any support and encouragement given to bandit troops in the Demilitarized Zone;

(5) Immediate solution of the Tientsin assassination case and the turning over of the murderers to the Japanese;

(6) Immediate removal of the provincial capital to Paotingfu;
(7) Resignation of Yu Hsueh-chung;
(8) Resignation of Chang Ting-ao, Mayor of Tientsin;
(9) Reorganization of the "Kung An Chu" (Special Police Department) troops in Tientsin, the dismissal of their chief who is close to Yu Hsueh-chung and his replacement by an officer having the approval of the Japanese;
(10) All questions reference the safety of North China which might in any way involve the lives and property of Japanese nationals must be discussed with the authorities of the Kuantung Army.

In addition to these ten demands it was verbally stated that the Kuantung Army expected that every item, verbal or written, of the Tangku Truce should be lived up to. The Japanese representatives stated that if these demands were not met Japanese troops would move into the Demilitarized Zone and Peiping and Tientsin would be included in that area.

General Ho Ying-chin transmitted these demands to Chiang Kai-shek and it is not believed that an answer to all of them has been received as this report is being written. Certain things have been done by the Chinese which are listed below:

(1) The resignation of Chiang Hsiao-hsien, Commander of the 3rd Regiment of Military Police, has been accepted as well as that of Mr. Tseng Kuang-ching, head of the Political Training Section of the Peiping Military Council (see item 3 of Japanese demands).
(2) The provincial capital is being moved to Paotingfu as fast as transportation is available (see item 6 of demands).
(3) A high official of the Chinese Government has stated that orders for the dismissal of General Yu Hsueh-chung would be issued in a few days (see item 7 of demands).
(4) Mayor Chang Ting-ao of Tientsin has been dismissed and replaced by Wang Ke-min, Chief Counsellor of the Peiping Branch Military Council (see item 8 of demands).

Just what the Chinese will do with reference to the other Japanese demands is not known but it is believed that they will be forced to accept them and will strive for some compromise so that part of the demands may be modified from their original form. Chiang Kai-shek cannot afford an open break with the Japanese at this time and so the old policy of passive resistance may be expected to continue.

According to confidential information received from Chinese officials the Chinese plan is to have conferences with the Japanese in Shanghai to settle the points presented in the demands, hoping that a little distance will lend some enchantment to the prospect and a possible softening of the Kuantung Army requirements. Following this there is expected to be a meeting in Hankow between Chiang Kai-shek, Wang Ching-wei, Huang Fu, Chang Hsueh-liang and possibly Ho Ying-chin. When a solution or compromise is reached the Chinese plan not to announce the terms but to wait until the return of Huang Fu to Peiping. An agitation has already been started for this move. When Huang comes back to the North he will receive the credit for the settlement which is calculated to ease considerably the situation vis-a-vis Sino-Japanese relations in North China. Actually of course he will solve the question in the terms already agreed upon in Shanghai.

Incident to this solution will be the dismissal of Yu Hsueh-chung, who states that he will not resign, and his replacement by some civil official, as the Japanese wish a non-military man for Hopei Chairman so that the question of stationing Chinese troops in the Tientsin area will be obviated.

This confidential information is believed to be the actual Chinese plans to meet the Japanese demands. Whether these schemes are successful against the Kuantung Army the next few weeks will determine.

6. Japan and Inner Mongolia.

While the Japanese diplomats were keeping the press full of "better relations with China" and the details of the raising of their mission in China to an Embassy, the Kuantung Army was making actions speak louder than words in Inner Mongolia as well as in North China.

On May 28th a Japanese plane landed near the Palace of Prince Te (Te Wang), the Secretary of the Mongolian Political Council, which is located about two hundred miles north of Kalgan. In this plane was a Colonel from Dolonnor whose name the Mongols have not been able to translate. This officer sought an interview with Te Wang and made the following suggestions in a very forcible manner:

(1) That the Japanese establish a branch of the Kuantung Army Special Service Department, as has been done in Dolonnor, at Te Wang's Palace.
(2) That the Japanese establish a radio station at Te Wang's Palace.
(3) That the Mongolian Government move its capital from Pailingmiao to the Palace of So Wang, Prince of Abagar Banner, about a hundred miles north of Dolonnor (see G-2 Report No. 9126, item 9).

The Japanese Colonel also made a semi-official offer to Te Wang to the effect that if the Mongols would be friendly to Japan certain things would be done for them. He stated that Hsingan Province of Manchoukuo would be separated from that Empire and be joined with the rest of Inner Mongolia to form "Mengkukuo" or a "Country of the Mongols". He called attention to the fact that the National Government had done but little for the Mongols. He stated that for years China had done nothing but oppress them, take their land and strive by intrigue to keep them from achieving their desired autonomy. These points are of course just the grounds upon which the Mongols have been complaining to Nanking and the Japanese figured their offers would be welcomed with open arms.

Te Wang sent a telegram at once to his representative in Peiping asking for an appointment with General Ho Ying-chin. Ho wired that he would meet Prince Te in Kalgan but the latter in characteristic Mongol style hurried to Kalgan and boarded the train for Peiping, arriving here on May 31st. He immediately called upon the Minister of War and explained the situation to him, asking for help. General Ho was unwilling to take any responsibility himself and wired to Chiang Kai-shek. So far as is known, no answer has been received.

To any who doubted that the Mongols have acted in good faith with the Central Government the events of the past few days are very significant. They confirm the belief that this office has always had regarding the sincerity of the Mongols in their desire to cooperate with Nanking. Te Wang came to Peiping at considerable personal danger to himself and against the advice and wishes of his own people, who do not trust the Chinese after the Han Feng-lin case (see G-2 Report No. 9005, item 3). Just how long he will remain in Peiping is not known, but it is believed that he will stay here a few days in the hope of receiving some answer from Chiang Kai-shek regarding the attitude of the Central Government toward the Mongols in dealing with the Japanese pressure in Inner Mongolia.

It is the belief of this office that Nanking will be unwilling to take any definite attitude as opposing the actions of the Japanese and that the Mongols will be left to work out their own salvation. This is likely to create a dangerous situation if the Japanese Army is determined to push into Inner Mongolia. Of course it is possible that the Japanese pressure on the Mongols at this time is only to hasten the action on Japanese demands in North China. If not, the Mongols may be forced to choose whether they will resist and be invaded by the Kuantung Army or whether they will negotiate of their own free will and thus strive to get better terms from the Japanese than they otherwise could hope for. In any case the position of the Mongols is not an enviable one.

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No. 9137 1st Ind. WSD:elh

Office of the Military Attache, American Legation, Peiping, China, June 7, 1935 - To: Chief, Military Intelligence Division, Washington, D.C.

Approved.

W. S. Drysdale
W. S. Drysdale
Lieutenant-Colonel, Infantry
Military Attache

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JUL 17 1935

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COMMENTS ON CURRENT EVENTS

June 8 — 21, 1935

RECEIVED G/2 W. D. JUL 16 1935

1. The National Government:
    - Vacation for Lin Sen
    - New Ambassadors
    - Legislative Yuan Adjourns
    - Control Yuan Commissioners
    - Municipal Improvements for Nanking
2. Naval Attache Changes
3. Hu Han-min Leaves China
4. Tibetan Affairs
5. American Economic Mission Departs
6. Sino-Japanese Relations
7. Japan and Inner Mongolia

1. The National Government:

Vacation for Lin Sen.

Advices from Nanking state that Mr. Lin Sen, the venerable Chairman of the National Government, will leave shortly for Kuling to spend the summer season. He is stated to be remaining in Nanking only long enough to receive the credentials of the newly appointed Japanese and British Ambassadors, Mr. Ariyoshi and Sir Alexander Cadogan, who were formerly Ministers for their respective countries.

New Ambassadors.

There seems to have been a race between the British and Japanese Ambassadors to see which one would be the first to present his credentials following the raising of the British and Japanese Legations to Embassies (see G-2 Report No. 9126, item 6). Sir Alexander Cadogan flew from Peiping to Nanking by plane and arrived ahead of Mr. Ariyoshi, who came from Kobe by steamer. Nevertheless the Japanese Ambassador presented his credentials on June 14th and the British Ambassador on the following day.

Legislative Yuan Adjourns.

On June 10th the Legislative Yuan announced plans to adjourn for the summer recess on July 1st to escape the heat. Recently there has been some talk of arranging for a summer capital in the hills at Kuling where government business can be carried on under cooler climatic conditions than prevail in the Yangtze Valley, but it is doubtful whether this scheme will materialize due to the large expense involved.

Control Yuan Commissioners.

Mr. Fang Chueh-hui, the Control Yuan Commissioner for the Honan-Shantung area, arrived in Tsinanfu on May 31st for duty, and Mr. Chou Li-shen, Control Commissioner for Hopei Province, arrived in Peiping on June 10th. These two officials are members of the Control Yuan in Nanking and are two of the ten newly appointed commissioners whose duty it will be to examine into the work of administrative officials (see G-2 Report No. 9137, item 1).

Municipal Improvements for Nanking.

The Nanking municipal government is making plans for a three year program for the construction primarily of a water sewage system and secondly of parks and boulevards. It is hoped that some of the funds of the Sino-Netherlands Boxer Funds Commission will be available to cover seventy-five per cent of the expense of this new project.

2. Naval Attache Changes.

Lieutenant-Commander Matao Okino, the Assistant Japanese Naval Attache stationed in Peiping, will be transferred to Shanghai the end of this month for duty as "Resident Officer attached to the Third Japanese Squadron Staff". Commander Okino has seen considerable service in China and speaks very passable Chinese and some English. His place in Peiping will be taken by Lieutenant-Commander Shigeto Kuwabara from the Naval General Staff Office in Tokyo.

3. Hu Han-min Leaves China.

Hu Han-min, veteran member of the Kuomintang and former President of the Legislative Yuan, sailed June 8th for Italy on the S.S. "Conte Verde", thus ending for the time being his virtual exile in Hongkong where he has lived for several years behind barbed wire and Sikh guards. It will be remembered that Hu was kept a prisoner in Nanking by Chiang Kai-shek for nearly a year when some of his actions as President of the Legislative Yuan failed to please the Generalissimo.

Hu has been bitter against Chiang ever since, and as an important leader of the Southwest political clique has been long a thorn in the side of the Nanking Government. His departure for Europe is expected to ease the relations between Canton and Nanking and the prospects of a rapprochement between the two political parties are much brighter than they have been for many months.

4. Tibetan Affairs.

According to press despatches from India, Mr. Frederick Williamson, British Political Agent in Sikkim, is leaving for Lhassa at the invitation of the Tibetan authorities to negotiate a settlement between the latter and the Panchan Lama. While it is possible that the officials at Lhassa may have invited British mediation in this matter it is considered very probable that the original suggestion may have come from the British themselves.

According to the best information available from Chinese sources, the Tibetan Government is well satisfied with conditions as they are and the presence of the Panchan Lama is not desired. This is believed to be especially true since that individual has joined forces with the Nanking Government in the hope that it would assist his return to power in Tibet (see G-2 Report No. 9108, item 4). Neither the political leaders in power in Lhassa nor the British Government is anxious to change the status quo in the "Land of the Lamas" and it will be interesting to see the moves of the British Agent.

5. American Economic Mission Departs.

The American Economic Mission which has been studying conditions in China for the past two months (see G-2 Report No. 9108, item 9) has concluded its stay in China. Mr. Forbes, accompanied by several other important members, sailed from Shanghai on June 18th and the remaining members plan to leave in the next few days.

Statements from Shanghai indicate that the report of the Mission will be worked up on the way home and that some statement will be published upon arrival in the United States. Members of the party have been careful to call attention to the fact that their activities were confined to investigating economic matters and that they had been avoiding political matters as their mission was an unofficial one.

6. Sino-Japanese Relations.

The last two weeks have been another critical milestone in the rocky road of Sino-Japanese relations. Where the road will lead no one can tell but it is a dreary one for China with every prospect of having to carry additional burdens under an increasing Japanese pressure. Since the presentation of certain demands by the Japanese Kuantung Army to General Ho Ying-chin (see G-2 Report No. 9137, item 5) the Chinese have been forced to accept them and as far as can be seen are carrying out just exactly what the Japanese have desired.

In the report mentioned above there were ten items mentioned which it is believed constituted the Japanese demands. They were finally given General Ho in writing and he communicated them to Chiang Kai-shek. What answer he received is not known but certainly all the points covered by the Japanese now have been acceded to by the Chinese. General Yu Hsueh-chung, Chairman of Hopei, who would not resign under Japanese pressure, has been transferred to be Bandit Suppression Commissioner on the borders of Shensi, Kansu and Szechwan and his troops have left the Peiping-Tientsin area. The Kuomintang political activities have ceased and all important personages engaged on that work have left North China. The point regarding secret organizations cannot be definitely checked but it is known that the Third Regiment of Military Police, which certainly had connections with such activities, has been sent to the South. The provincial capital went posthaste to Paotingfu and various outwardly anti-Japanese officials have been replaced.

Suffice it to say that a more complete capitulation would be hard to find. Practically no adverse comment appears in the Chinese press, a most unusual thing where Japanese actions are concerned, and this of itself is evidence that Kuomintang activities have ceased in the North and that strict orders have come from Nanking to avoid any anti-Japanese activities which might give the Kuantung Army an excuse for another "incident" with disastrous results for the Chinese.

The affair has been a terrific loss of face for China and the whole of the North, including the Chinese officials themselves, has been in a state approaching a panic like that which was in evidence when the Japanese troops were so near to Peiping following the Jehol campaign in 1933. Many of the Chinese civil and military officers who were in a position to know stated that they did not understand what the Japanese really wanted. Actually this was a part of the Japanese plan to stampede the Chinese into doing exactly what the Kuantung Army desired.

There is some truth in the assertion by certain authorities that Tokyo was not in accord with some of the plans of the Kuantung Army. An evidence of this is the statement of General Hayashi, Japanese Minister of War, on June 17th to the effect that the Japanese Army had no intention of establishing an autonomous state in North China. Nevertheless, it is believed that some of the Japanese officers in China have encouraged a certain body of disgruntled Chinese politicians, members of the defunct Parliament of Anfu days, in their propaganda to set up a government in the North. It is believed that this was done by the Japanese for the purpose of making local conditions more unsettled than ever so that the Chinese officials would have more to worry about just at this time. One of the means to further this end was the sending out of "A proclamation to our countrymen in North China by the Chinese Republican Confederacy". Unlike previous Japanese instigated propaganda this was not dropped from a Japanese plane but was mailed, and written as though coming from Chinese sources. This separatist movement, while causing considerable worry in certain Chinese and foreign official circles, is believed not to have been of a serious nature.

The Japanese were not satisfied with the assurances which General Ho Ying-chin must have given them that their demands would be complied with but wished to have his answer in writing. Ho was unwilling to give such a document and this fact undoubtedly was one of the main reasons for his leaving Peiping on June 13th. He is now in Nanking where a conference is being held regarding Sino-Japanese affairs in Hopei and the North. Wang Ching-wei, President of the Executive Yuan, held a hurried conference with T. V. Soong in Shanghai and then returned to Nanking where he is in meeting with Ho Ying-chin, Tang Yu-jen, the Vice-Minister of Foreign Affairs, Yeh Chu-chang, Secretary of the Central Kuomintang, and General Huang Fu, who arrived from Shanghai on June 16th.

Some sources, including certain Japanese, have stated that General Ho Ying-chin went South because of Japanese demands and this item was included in press notices of Japanese demands appearing in Manchuria. Whether or not this point was one of the actual demands is not known but it is possible that either Ho or Huang Fu may return to Peiping, certainly not both of them. In the interim and pending a definite decision, Wang Ke-min has been made acting head of the Peiping Political Council.

For a time it looked as though the Japanese might move a considerable body of troops into the Demilitarized Zone and their pressure took place just at the time that reliefs for their China garrison were arriving. All this gave them about four thousand men which they could have used if necessary, but the instructions from the Chinese Government made any move of this nature uncalled for and the Chinese accepted the Kuantung Army demands.

To the Occidental, conditions in North China present a problem which in truth is the proverbial "Chinese puzzle". It is difficult for us to understand how a government and a people can sit back and allow the Japanese to impose their will upon them in such a bold faced manner. The Chinese however have apparently resigned themselves to the fact that there is "mei yu fa tzu" - no way out of it - at present and that their only salvation is to wait until somehow they are strong enough to oppose Japan. Persons on the street commonly remark to the effect that if opposition does not come in their lifetime it will be carried on by their children or grandchildren, and this is the typical attitude of the people. They can see no way out of their dilemma and the Nanking Government will not lead them at this time. Chiang Kai-shek apparently realizes that to oppose the Japanese now would bring worse punishment than to accept the Japanese aggression. There is no question that the Nanking Government will oppose such aggression when possible short of actually putting its neck under the sword of the Kuantung Army.

7. Japan and Inner Mongolia.

Now that the Japanese have eliminated the most glaring anti-Japanese obstacles from North China they are casting their eyes with new interest on Inner Mongolia. Perhaps the rumors in South China to the effect that Chiang Kai-shek had been making overtures to the Soviet Government may have worried the Japanese General Staff or perhaps it is just the ever present nightmare of Russians riding over the Mongolian plains to intercept the Japanese lines of communication in Manchuria. At any rate the Kuantung Army is not letting any grass grow under its feet, and active measures are being taken to increase Japanese influence in Inner Mongolia.

The curtain raiser to the latest play in that area was given some days ago when a Japanese plane landed at the Palace of Te Wang, the Secretary of the Mongolian Political Council, and presented several "suggestions" to him (see G-2 Report No. 9137, item 6). This preliminary step has been quickly followed by pressure on the Nanking Government to remove Sung Che-yuan from his post as Chairman of Chahar. It will be remembered that Sung was one of the higher commanders who resisted the Japanese at the Great Wall in 1933.

During the last few days an incident was manufactured when some Japanese travelling in Chahar without passports were detained by the Chinese authorities. This was sufficient excuse, if any was needed, and on June 18th the Executive Yuan issued an order dismissing Sung from his post. He still retains command of the 29th Army but according to Japanese military sources at least one division has started to move westward toward the Shansi border. Sung has been replaced by General Chin Te-chun, formerly head of the provincial Civil Affairs Department. Chin will bear the rank of Acting Chairman only. As this report is being written, Sung is reported by reliable sources to have left Kalgan on orders from Nanking and to have arrived in Peiping in disguise.

From Mongol officials it is learned that hints from the Japanese would indicate that General Itagaki, Vice-Chief of Staff of the Kuantung Army, would soon visit Te Wang with a view to presenting him with some of the "suggestions" which were given in a less official manner some days ago by the Japanese colonel who arrived at Prince Te's Palace by airplane. The Mongols were able to put off the first visit with evasive replies but they are very much exercised regarding the proposed trip of Itagaki in view of the fact that they fear he will demand definite answers.

Te Wang hurried to Peiping, as has been previously reported, and explained the situation in detail to Ho Ying-chin, who wired to Chiang Kai-shek for instructions. Te Wang remained in Peiping for eight days, leaving for his Palace on June 8th via Kalgan. General Ho Ying-chin had received no orders from Nanking up to that time but told the Prince that he would take up the matter personally with Chiang Kai-shek in the near future. Ho would assume no responsibility for telling the Mongols to resist Japanese pressure and it is known that Ho also told Sung Che-yuan not to bring on an armed clash with the Japanese in southern Chahar.

There is no question that Sung Che-yuan would have resisted the Japanese had he received the slightest encouragement from Nanking, and Te Wang stated that he would join with him in this move. Nanking, however, has apparently decided to continue the policy of non-resistance and is willing to accept the dictates of the Japanese regarding the dismissal of Sung in Chahar as well as the other demands for North China. No instructions have been given to the Mongolian Political Council as yet as to what action they should take but it is quite evident that they can expect no aid from the Central Government.

A study of conditions leads to the belief that there are two courses open to the Mongols. The first would be to refuse whatever demands the Japanese make and to offer what little resistance their limited armament and meagre military supplies permit. In this case they would be defeated and would have to accept the terms of the conquerors. The other alternative is for the Mongols to agree of their own accord to join with the Japanese in any scheme they may propose for a Mongol state allied with Manchoukuo. They could then at least put up a front of making a treaty as between equal states and might receive better treatment from the Kuantung Army than they could expect as a vanquished people.

Actually the Mongols would prefer to retain their connections with China and this fact has been amply demonstrated in many ways, particularly during recent events when Te Wang came to Peiping in spite of opposition by the Japanese. There is every evidence that he and the other Mongols have played aboveboard with the Central Government and the unwillingness of Chiang and others at Nanking to trust them or their inability to give them any assistance may very easily lose Inner Mongolia for China. The Mongols hope for a United Mongolia and believe that this is possible while they retain connections with the Chinese. They are convinced that whatever outward signs the Japanese may give of helping them to achieve their autonomous desires, the final result will be complete domination of the Mongols of Inner Mongolia in the same way as their brothers in Manchuria and Jehol are under the Japanese yoke.

These facts have been confidentially given to this office by the highest Mongol authorities and are backed up by personal investigation in Inner Mongolia. They are believed to be the actual thoughts of the Mongols at the present time. It is no wonder that they look with apprehension upon the rumored visit of such an important person as the Vice-Chief of Staff of the Kuantung Army. If the Japanese are determined to increase their influence in Inner Mongolia at this time it is not clear how such can be prevented. Certainly the opportunity exists and the Kuantung Army may be expected to take advantage of it.

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Office of the Military Attache, American Legation, Peiping, China, June 21, 1935 - To: Chief, Military Intelligence Division, Washington, D. C.

Approved.

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COMMENTS ON CURRENT EVENTS

June 22 - July 3, 1935

RECEIVED G/2 W. D. JUL 31 1935

1. The National Government:
    - New Stamp Issue Planned
    - Revised Export Tariff
    - Income Tax for China?
    - League Delegates
2. Spanish Minister Leaves
3. Japanese Consular Conference
4. News of Ambassadors
5. "Far Eastern Times" Revived
6. Manchoukuo Budget
7. Conditions in North China
8. Inner Mongolia and Japan

1. The National Government:

New Stamp Issue Planned.

According to information from the Ministry of Communications, the New Life Movement stamps which have been printed by the Postal Administration will be placed on sale on July 1st. The new stamps will be of the 1-cent, 5-cent, 10-cent and 1-dollar denominations. This measure is hoped to increase the revenue of the Post Office Department.

Revised Export Tariff.

On June 26th the revised export tariff schedule was formally announced in Nanking. According to this eighty-eight kinds of goods including sea products, dye-stuffs, cotton piece goods, tobacco, alcohol, matches and sweetened fruits were exempted. Some fifty other items were given a reduced rate. An examination of the articles affected by the revision would indicate that the measure was designed to assist domestic industry and help relieve the economic depression rather than to help Japanese trade, as some reports stated.

The exemptions and reductions will mean a loss of about three million dollars silver annually to the Customs revenue. They will come into force as soon as the measures governing interport duties have been settled.

Income Tax for China?

Information from financial circles indicates that the Ministry of Finance is drawing up plans for enforcement of an income tax in the next fiscal year. Rough estimates claim that an additional five million dollars silver will be available to the Government if this new project is enforced.

Much of the private fortunes of China is kept in actual currency in family coffers and not only is it never invested but a large proportion never even reaches the banks for deposit. Needless to say the collection of an income tax in China will be one of the most difficult problems that has ever tried the ingenuity of Chinese tax collectors.

From M/A, China   Report No. 9158   July 3, 1935

League Delegates.

On June 23d the Ministry of Foreign Affairs appointed the following delegates to the League of Nations Assembly which is scheduled to take place in Geneva next September:

Dr. W.W. Yen (Yen Hui-ching), Chinese Ambassador to the U.S.S.R.
Mr. Kuo Tai-chi, Chinese Ambassador to Great Britain.
Dr.V.K. Wellington Koo (Ku Wei-chun), Chinese Minister to France.

2. Spanish Minister Leaves.

H.E. Don Justo Garrido, the Spanish Minister, left Peiping on June 26th for Shanghai where he will embark for Spain on six months' leave. In his absence Don Ricardo Muniz will be in charge.

3. Japanese Consular Conference.

According to Japanese sources two Japanese consular conferences will be held shortly in Shanghai. The first conference will be in charge of Mr. Matsumoto, Chief of the Second Section of the Treaty Bureau of the Japanese Foreign Office, and will be attended by juridicial consuls from Hankow, Amoy, Tientsin, Tsingtao and Shanghai. The second conference will be for the Japanese Consuls-General in China.

These conferences are a continuation of the meetings held about two months ago (see G-2 Report No. 9108, item 6) and are believed to be chiefly concerned with the expansion of Japanese trade in China and measures to combat what is left of the anti-Japanese boycott in South China.

4. News of Ambassadors.

H.E. Mr. Nelson T. Johnson, the United States Minister to China, received formal notification on June 23rd of his appointment as the first United States Ambassador to China.

On June 25th the Executive Yuan appointed Mr. Alfred Sze (Shih Chao-chi) as Ambassador to the United States and Mr. Cheng Tien-fang as Ambassador to Germany. Both of these officials formerly held the rank of Minister.

The Ministry of Foreign Affairs has announced that General Chiang Tso-pin, the newly appointed Chinese Ambassador to Tokyo, will return to China on home leave some time in July. It is stated that the reasons for his return are personal and in view of his recent promotion this is believed to be correct.

5. "Far Eastern Times" Revived.

The last few days have seen the revival in Peiping of the "Far Eastern Times", a daily newspaper in the English language which ceased publication in 1928. This time the "Far Eastern Times" was started under the old registration which had been acquired by a certain Mitchel Chang, a Chinese newspaper man of doubtful reputation. The paper was issued for three days and was stopped by the Peiping local authorities because the registration was not in order.

Investigation reveals that the paper is backed with Japanese money supposed to come from the South Manchuria Railway, but it is known to this office that a Mr. K. Yonehara, who has been connected with the unofficial Manchoukuo publicity office in Peiping, is the man who has been making most of the arrangements for the publication. When the local authorities shut down the paper, the editors consulted the Japanese Embassy and were told to apply in the regular manner for authority to issue but to request permission to publish the sheet while awaiting official sanction. So far the paper has not reappeared.

Persons connected with the paper have stated that suggestions were made to the Japanese that they publish an English edition to one of the Japanese newspapers instead of troubling with reviving the "Far Eastern Times" but the Japanese would not agree to this suggestion. From consideration of all available information connected with the case, it is believed that this newspaper when published will be a Japanese controlled sheet for the purpose of printing pro-Manchoukuo propaganda in North China.

6. Manchoukuo Budget.

According to press despatches from Manchuria the budget of the Manchoukuo Government for the abbreviated second year of Kang Te (July 1 - December 31, 1935) has been tentatively fixed at 99,500,000 yuan, an increase of 5,200,000 yuan over the amount for the one half of the budget of the current year. They expect that the increased funds required will be met by anticipated natural increases in revenue and with the surplus from the last fiscal year.

Funds for support of the Japanese in Manchoukuo are believed to be largely placed on the budget of that country with a corresponding saving for Japan.

7. Conditions in North China.

North China in general and the Peiping-Tientsin area in particular continue to hold the center of the Chinese stage. The Nanking Government still follows its policy of not antagonizing the Japanese and while endeavoring to compromise with them, carries out such measures with respect to North China as are forced upon it.

There is no question as to this attitude and a mandate was even published to the effect that the people should not take any action nor express any opinion tending to provoke the ill feeling of foreign nations, nor should they form any organizations whose objects are prejudicial to China's international relations. There is one sentence which is unusually significant - "It is important to be friendly towards our neighbors" - and it is quite evident that the mandate was issued to appease the Japanese and very likely under Japanese pressure.

Meanwhile the changes among officials in North China go on. Wang Ke-min, who has been nominally Secretary General of the Peiping Branch Political Council, has been appointed Acting Chairman in the absence of Huang Fu, and has been relieved of his post as Mayor of Tientsin, which post he never actually filled.

The position of Mayor of Tientsin was given to Mr. Cheng Ke, a graduate of the Tokyo Imperial University. In the days of the old Peking Government Mr. Cheng was Minister of Justice and later Minister of the Interior. He is fifty-eight years of age. It is believed that he will be overshadowed by General Shang Chen.

The important position of Chairman of Hopei Province vacated by Yu Hsueh-chung (see G-2 Report No. 9145) has been given to General Shang Chen, Commander of the 32nd Army, who has been living in Peiping. He has also been named as Pacification Commissioner of the Peiping-Tientsin area. This office has definite information that General Shang tried in every way to avoid this appointment but could find no way out and was forced to accept. He has one of the most difficult tasks in China and it is to be hoped that he will not be forced out by circumstances incident to Sino-Japanese relations since it is believed that he is a very superior type of official and an outstanding Chinese officer.

Naturally the appointment of General Shang Chen as Chairman of Hopei brought other changes in the Provincial Government. In charge of Civil Affairs we find Mr. Li Pei-chi, who was formerly with Yen Hsi-shan but fell into disrepute with the "Shansi Tiger" because of too great an admiration for Chiang Kai-shek. The Finances will be handled by Mr. Li Chin-yung, a native of Hopei and in charge of this same bureau once before, when Shang Chen was Chairman of Hopei some years ago. Matters of reconstruction will be under Mr. Lu Hsien who has served the National Government in Kiangsi. Several members at large of the Administration are retained and the Chief Secretary, Mr. Liu Sui-chang, is one of Shang's most trusted followers and has been his confidential secretary for some years.

Despite the fact that the critical period seems to have passed for the moment, there are as yet many minor matters to be straightened out. The situation is still in a fluid condition and it only remains for the Japanese to stir up the fire again to have the whole Sino-Japanese and internal political pot boiling over once more.

8. Inner Mongolia and Japan.

Just now the spotlight of Japanese attention remains on Inner Mongolia and the settlement of the "Chahar Incident" (see G-2 Report No. 9145, item 7). Following the dismissal of General Sung Che-yuan from his post as Chairman of Chahar and his move from Kalgan to the British Concession in Tientsin affairs have been moving steadily toward a settlement according to Japanese plans. General Chin Te-chun tried his best to avoid accepting the position vacated by Sung and even went to the

German Hospital for treatment. However he seemed quickly cured and has been induced to carry on in Chahar. It is understood that he is a good friend of Colonel Matsui, the Japanese "Resident Officer" in Kalgan, and that he will be able to negotiate matters with the Japanese.

Peiping became very much excited during the last few days due to the presence of General Doihara, the "Bird of Ill Omen", who is credited with much of the responsibility for the Mukden Incident which precipitated the Japanese occupation of Manchuria. He came to Peiping mainly for the purpose of settling the Chahar question. While here he had conferences with Chin Te-chun and other personages connected with Chahar, a final settlement being reached in the early morning hours of June 26th. At that time it is believed that certain demands were made upon the Chinese and while definite proof is lacking of the exact terms the following are believed to be salient points:

1. Officers responsible for the Chahar incident to be punished. The Chiefs-of-Staff of the 1st, 2nd and 3rd Chahar Divisions and the Chief Judge of the Military Court in Chahar to be relieved.
2. Demilitarizing of eastern Chahar and the transfer of troops from that area.
3. Kuomintang organizations, "Blue Shirts" and other secret societies to be removed from Chahar.
4. No further colonization of Mongol lands to be undertaken by the Chinese.
5. Friendly relations to be maintained with the Japanese.
6. These terms to be placed in writing.

It is definitely known that General Chin wrote Doihara a letter which was delivered to him at the Military Attache's Office in the Japanese Legation on June 27th and embodied certain of these items in it, obviating the signing of a formal agreement. The item regarding the colonization of Mongol land is very significant if true as it shows that the Japanese are continuing their efforts to break the Mongols away from China. This is the only item regarding which there is doubt as to its authenticity and whether or not it was included in the terms accepted by the Chinese.

On the 27th of June, Major Takahashi gave an interview to the press in which he stated that the Chahar incident had been completely settled and that the Chinese had given ample assurances in Chin's letter to Doihara that they would make a point of getting along well with the Kuantung Army in the future! Doihara left Peiping on June 30th, having added another feather to his cap.

Mongol sources report that while another plane visited Prince Te's Palace it did not contain General Itagaki and they are breathing easier regarding immediate pressure upon them (see G-2 Report No. 9145, item 7). They must feel quite optimistic for they are planning to have the usual feast, horse racing and general entertainment at Te Wang's Palace on July 14th, which they would not do if the situation seemed critical.

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Distribution:
- 6 MID
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- 1 Tientsin
- 1 Manila
- 1 Tokyo
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No. 9158 1st Ind. WSD:elh

Office of the Military Attache, American Legation, Peiping, China, July 3, 1935 - To: Chief, Military Intelligence Division, Washington, D.C.

Approved.

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COMMENTS ON CURRENT EVENTS

July 4—19, 1935

RECEIVED G/2 W. D. AUG 12 1935

1. The National Government:
    Chinese Minister to Cuba
    Revised Press Law
    Postal Amalgamation
    Ambassador to Japan Returns
2. Yunnan—Burma Frontier Commission
3. Government Control of Finance?
4. Serious Flood Situation
5. Canton-Hankow Railway
6. Immigration in Manchuria
7. Sino-Japanese Relations

1. The National Government:

Chinese Minister to Cuba.

General Chang Hui-chang, newly appointed Minister to Cuba, left Shanghai for his new post on July 16th. General Chang was appointed Minister in place of Dr. Lin Ping. It will be remembered that Chang was formerly head of the Canton Aviation Department and became so influential that the Southwest Political Council forced him out of office. His efforts to secure a position in Nanking have been opposed by T. V. Soong. His appointment is believed to be for the purpose of getting him out of the country (see G-2 Report No. 9117, item 1).

Revised Press Law.

The Legislative Yuan approved a revised Press Law on July 12th. These regulations provide that anyone desiring to publish a newspaper or magazine must first secure permission from the local Bureau of Social Welfare or District Administration at place of registration. No publication will be permitted to appear before securing proper approval.

Another clause provides that no publication may print stories concerning the "secrets" of individuals without the consent of the police authorities. This in effect provides a closer control on the numerous sheets, particularly in Shanghai, which are so prone to publish racy and not too accurate stories regarding the personal lives of government officials and other prominent personages. Even in Peiping some of the smaller journals which are similar to the "mosquito papers" of Shanghai delight in providing intimate stories of local celebrities.

The penalty laid down for violation of these new rules is imprisonment for periods of not over one year.

Postal Amalgamation.

According to information from the Ministry of Communications, the new fiscal year which commenced on July 1st will see the amalgamation of the Directorate General of Posts and the Directorate General of the Postal Remittances and

Savings Bank. It is understood that no change will be made in the organization of the latter department following the merger. The business and accounting departments will remain independent but the officials of the bank will be appointed by the Ministry of Communications. Having these offices under one head is calculated to simplify administrative matters.

Ambassador to Japan.

General Chiang Tso-pin, Chinese Ambassador to Japan, left Yokohama for Shanghai on July 5th and arrived in Shanghai on July 7th. Upon arrival in China he went directly to Nanking to report to the Government regarding the situation in Japan and also with reference to the recent developments in Sino-Japanese relations. On July 12th he departed for Chengtu, Szechwan, for the purpose of having a conference with General Chiang Kai-shek.

Despite official announcements by the Government and by General Chiang Tso-pin himself to the effect that he will return to Japan, there seems a possibility that such will not be the case. There is reason to believe that Chiang may be appointed Mayor of Shanghai or given a position in the Foreign Office. Any changes which may be made in this regard are now being decided upon in Chengtu at the conference between Chiang, the Generalissimo and other important personages.

2. Yunnan—Burma Frontier Commission.

On July 12th the Central Government announced that in accordance with notes exchanged between the Chinese and British Governments under date of April 9th (see G-2 Report No. 9108, item 2), the personnel of the joint commission has been determined. It will be remembered that this commission was to sit for the purpose of investigating the undetermined portions of the boundary line between Yunnan and Burma. The personnel of the commission is given below:

Chairman (neutral) - Colonel Iselin of the Swiss Army. Has served on boundary commissions in Syria and Iraq as neutral chairman.

Chinese members - Mr. Leong Yew-oh, Counsellor of the Ministry of Railways and Adviser to the Treaty Commission of the Ministry of Foreign Affairs.

Mr. Yin Ming-te, Adviser to the Treaty Commission of the Ministry of Foreign Affairs.

British members - Mr. J. Clague, C.I.E., Indian Civil Service. Is at present Commissioner of the Federated Shan States.

Mr. F. S. Grose, Deputy Commissioner of the Burma Frontier Service.

In addition to the persons named above, it is stated that there will be certain assistants and experts attached.

3. Government Control of Finance?

According to reliable information from governmental financial circles there is a plan being worked out to control Chinese currency effective January 1st of next year. These measures contemplate requiring the use of notes issued by the Central Bank and of prohibiting other banks from using their own notes.

All notes of the Bank of China and Bank of Communications will be called in and Central Bank notes issued in their place. Other banks will be required to call in their note issues and replace them with notes which they must obtain from the Central Bank. These notes will be obtained by depositing an equal amount of silver or securities with the Central Bank to the value of notes required and Central Bank notes will be issued in kind.

Central Bank notes will cease to be redeemable in silver when and if these regulations are adopted. This plan is said to have the backing of T. V. Soong.

4. Serious Flood Situation.

The flood situation in the vicinity of Hankow continues to be threatening though the waters in the upper reaches of the Yangtze River have subsided somewhat. The water on the Bund has been steadily rising but it is believed that should there be no further rains along the tributary rivers a serious flood in the Hankow area may still be averted.

Across the river in Wuchang conditions are not so hopeful. Several dikes on the outskirts of the city collapsed on July 13th and some of the city gates have been closed and sandbagged as a precaution against further high water. The railway embankment at the terminus of the Wuchang-Changsha (northern section Canton-Hankow) railway has been washed away in places and measures are being taken to restore traffic.

In Shantung the Yellow River is also causing trouble this year. Western Shantung near Yenchen is under ten feet of water and the flood water appears to be moving slowly but steadily eastward.

5. Canton-Hankow Railway.

The Ministry of Railways has announced that a Canton-Hankow Railway Readjustment Commission will be established to readjust the administration of the Hupeh-Hunan, Chuchow-Shaokwan, and Canton-Shaokwan sections of that line. This railway is of particular interest to Americans as at one time it constituted what may be considered the only railway concession ever held by American interests in China. The Hukuang Railway loans and the Siems-Carey projects can hardly be regarded as concessions but rather loan and construction agreements for the building of railways for the Chinese Government.

The original agreement for this line was held by the American-Chinese Development Company and was signed in April 1898 with Calvin S. Brice at the head of the American syndicate. The Spanish-American War delayed the project and the death of

Senator Brice removed the chief personal force from this enterprise. Shortly after this, Belgian interests secured majority control in the development company but were later displaced by American. The American interests, however, were not active in pushing the scheme and eventually the Chinese Government took over from the American-Chinese Development Company in 1905, paying $6,750,000 (gold) for title to all work done and profits and goodwill of the entire enterprise.

Since that time sporadic construction work has been done on this project of connecting Canton with Hankow by railway but it is only within the last few years that construction on the uncompleted portion from Shiuchow, Kwangtung Province, to Chuchow, just south of Changsha in Hunan Province, has been pushed. Recently construction has been going on from both ends and the prospect of a complete line may now be hoped for. For this reason the National Government desires to effect a consolidation of administrative offices in the interests of operating efficiency.

6. Immigration in Manchuria.

According to information from Mukden the Manchoukuo Bureau of Railways has drawn up a plan to settle some twenty-five thousand farmers in the territory fed by the Hulan-Hailun Railway. This line begins on the opposite bank of the Sungari River and extends northward through a very fertile farming area.

The colonization scheme expects to have the farmers arrive in the new territory this fall so as to be settled for the spring planting. The lands to be settled are stated to have been "purchased" from the local inhabitants. Preference will be given to ex-soldiers under the new plan. Whether this colonization will prove more successful than most Japanese efforts remains to be seen. The settling of ex-service men in this area will provide an amenable population for Japanese orders and insure a friendly people on either side of a railway the protection of which will be of vital importance to Japan in event of a war with Russia.

7. Sino-Japanese Relations.

Sino-Japanese relations continue to be the vital question in the minds of the Chinese not only as they effect their country and Japan in an international sense but also as they influence the readjustments necessary in the internal political situation. There can be no doubt left in the mind of any unprejudiced observer that Japanese influence in international and internal matters in China is of major importance and bids fair to increase. Whatever may be the personal feeling of the Chinese officials at the helm of the National Government they have been forced to realize that the Japanese are determined to have certain conditions in Sino-Japanese relations and are prepared to use force if necessary to accomplish their ends.

In North China the Japanese have made their influence felt more openly perhaps than in other parts of the country and the results have shown in the displacing of the Chairman of Hopei and more recently of General Sung Che-yuan of Chahar.

The Mayor of Tientsin has been changed and Wang Ke-min has been appointed Acting Chairman of the Peiping Branch Political Council (see G-2 Report No. 9158, item 7). Former Fengtien troops continue to move southward and some of the Chahar forces have been moved to Peiping. There is every indication that the Chinese military forces in North China will be moved to suit the political situation vis-a-vis Japan and to all intents and purposes the Demilitarized Zone may be expected to broaden by mutual consent with as little publicity as possible.

Not only in North China has Japanese pressure been evident. In Amoy the local Kuomintang offices have been closed and the same sort of procedure appears gradually to be under way in the Yangtze Valley. An example of this was the recent case of the "Hsin Seng" or "Hsin Sheng" - the "New Life" magazine published in Shanghai. An article appeared which the Japanese claimed cast reflections on the Japanese Emperor. The article itself seemed harmless enough and in any other country or even here at any other time might easily have passed unnoticed. However, the Japanese took the matter up and the result was a fourteen year prison sentence for the editor and publisher who happened to be out of town when the article appeared! Whether or not the case may be appealed has yet to be settled.

The increased pressure of Japan upon Shanghai has given rise to rumors of a further change of the capital in case the situation becomes critical, with Chengtu as the possible location. At present it is too early to place credence in such reports but they are interesting as evidence of the present psychology of the Chinese, which has for the moment apparently become resigned to the passive motif. Foreigners connected with educational institutions in the Yangtze Valley report that the students, usually so anti-Japanese, seem inarticulate regarding the present situation. This is believed to be due to the fact that the Kuomintang has decided to call a halt for the moment to the propaganda work which it has been so actively carrying on among the students of recent years.

As this report is being written Chiang Kai-shek is having a conference in Chengtu with General Chiang Tso-pin, the Chinese Ambassador to Japan, and General Huang Shao-hsiung, Chairman of Chekiang. From sources close to the Government it is learned that among other subjects discussed will be the question of the possible amalgamation of the Peiping Branch Military and Political Councils. The result of this decision will determine whether or not General Ho Ying-chin, the Minister of War, will return to North China.

CONFIDENTIAL. Incident to the present situation the plans of the Chinese Government contemplate the shifting of certain officials in prominent posts. Whether internal political conditions will permit the scheduled change or whether the Japanese will acquiesce is not known. However, the Government plans the following re-arrangement:

(1) General Sung Che-yuan to be Chairman of Anhwei Province. He has just been removed from Chahar at Japanese insistence. It is desired to get him and his troops out of North China. This has become particularly necessary due to the

activities of Hsiao Chen-ying, a special delegate of Chahar who has been trying to gain favor with the Japanese by playing a lone hand against the officials who would normally handle matters. Hsiao desires to be made Mayor of Peiping and incidentally to have Sung Che-yuan as Chairman of Hopei. He has threatened Nanking to cause trouble if he and Sung were not taken care of in good positions.

(2) General Liu Chen-hua, present Chairman of Anhwei, to be Chairman of Chekiang. Liu is one of the venerable old Honan military men of no particular ability who has managed to remain friendly to Yen Hsi-shan, Chiang Kai-shek and others of importance. His transfer will make no difference to any political clique concerned.

(3) General Huang Shao-hsiung, present Chairman of Chekiang, to be Chairman of Hupeh. General Huang came originally from Kwangsi and served as Minister of the Interior. It will be remembered that Chiang Kai-shek has entrusted him with several delicate missions, such as breaking the ground for the Mongolian autonomy discussions, all of which he has handled with satisfaction to the Generalissimo. He is now in Chengtu and one of the key men in the conference there. Of undoubted loyalty to Chiang Kai-shek, he will be a valuable man to have in the Hankow area.

(4) General Chang Ch'un, present Chairman of Hupeh, to be Ambassador to Japan. Chang is a Szechwan man and formerly the Generalissimo's Chief of Staff. Following graduation from the old Paotingfu Military Academy he went to Japan and took the course at the Tokyo Military Staff College. He also served as Mayor of Shanghai. General Chang is considered a very able person and believed to be the man to carry out Chiang's policy to the letter.

(5) General Chiang Tso-pin, the present Ambassador to Japan, to be Mayor of Shanghai or given an important position in the Ministry of Foreign Affairs.

These contemplated changes are believed to be made in accordance with a policy which will settle certain internal affairs such as conditions in North China, and yet be in line with not antagonizing the Japanese. As a matter of fact it is believed that certain changes will please the latter. The whole series of movements indicates an effort on the part of Chiang Kai-shek to appease Japanese wishes. END OF CONFIDENTIAL SECTION.

As regards further Japanese activities in North China, there have been many reports to the effect that various industrial and business corporations would be organized in that area with Japanese backing. Prominent among Chinese spoken of in this connection have been Wang I-tang and Tsao Ju-lin, both members of the old Anfu clique. Tsao was involved in the Nishihara Loans. There can be no question that the Japanese are contemplating such developments as General Doihara is quoted as saying that the time for the Kuantung Army to assist in the development of North China had arrived!

It is known that the South Manchuria Railway Company has had investigating parties in China for some time and during the last month in Chahar. A recent despatch from Changchun states that improvement in railway facilities will receive special consideration. It is believed that the Japanese will pay particular attention to the possibility of getting their hands on the coal in Shansi, iron in Chahar, textiles in Tientsin, salt in Hopei, and cotton and wheat in Hopei, Honan and Shantung.

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No. 9165 1st Ind. JWS:elh

Office of the Military Attache, American Legation, Peiping, China, July 19, 1935 - To: Chief, Military Intelligence Division, Washington, D.C.

Approved.

Joseph W. Stilwell
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Lieutenant-Colonel, Infantry
Military Attache

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COMMENTS ON CURRENT EVENTS

July 20 - August 2, 1935

RECEIVED G/2 W.D. AUG 26 1935

1. The National Government:
    - Sino-French Treaty
    - Personnel Minister Changed
    - Sixth Plenary Session, C. E. C.
    - New Ambassadors
2. Investigation Party to Siam
3. Japanese Mission to Australia
4. Flood Situation
5. The Former Chinese Eastern Railway
6. China's Unfavorable Trade Balance
7. Journalists Kidnapped
8. Mussolini's Gift to Chiang Kai-shek
9. Sino-Japanese Relations

1. The National Government:

Sino-French Treaty.

The Sino-French commercial treaty with reference to Indo-China, which was ratified recently by the Chinese and French Governments, was published simultaneously in Nanking and Paris on July 21st (see G-2 Report No. 9175). The publication of this agreement brings to a close the negotiations which were first instituted for tariff rates under the Franco-Chinese Convention of 1930 (see G-2 Report No. 9126, item 1).

In accordance with Article 3 of the agreement, it is understood that the Chinese Government is making plans to open Consulates at Saigon, Hanoi and possibly at Haiphong. The personnel of these posts has not been announced.

Personnel Minister Changed.

On July 24th the Central Political Council appointed Mr. Shih Ying to be head of the Personnel Ministry. The new Minister has an excellent reputation in the Kuomintang and was formerly Mayor of Nanking. Some months ago he was forced out of this position due to a disagreement with Wang Ching-wei over the policy of entertaining visiting Japanese. Wang wished certain of these entertained and Shih Ying refused, stating that the entertainment funds allowed would not permit the expenditure. The appointment of Shih indicates that Wang's influence is not as strong as in the past.

Sixth Plenary Session, C.E.C.

On July 25th the Standing Committee of the Central Executive Committee of the Kuomintang announced that they plan to hold the Sixth Plenary Session of the C.E.C. late next September. In view of the recent abolition of Kuomintang headquarters in North China and the curtailment of its activities in that area it will be interesting to see what mention is made of these events at the next Plenary Session.

New Ambassadors.

Word has been received from Nanking to the effect that in September two Ministers will present their credentials as Ambassadors to Mr. Lin Sen, Chairman of the National Government in Nanking. Dr. Oscar Trautmann, the German Minister, will present his credentials on September 14th and will then become the first German Ambassador to China. Mr. Nelson T. Johnson, the American Minister, will present his papers on September 17th, thereby becoming our first Ambassador to this country.

2. Investigation Party to Siam.

According to advices from Shanghai, an investigation party will be organized jointly by the Overseas Chinese Affairs Commission and the Ministries of Finance, Industry and Foreign Affairs for the purpose of studying the present industrial and commercial conditions in Siam. While no mention of it is made in this announcement it is believed that the real reason for the formation of the investigation party is the desire of the Chinese to look into the anti-Chinese situation which is reported to exist in Siam.

Several months ago there was action by the Shanghai Rice Merchants' Guild as a protest against ill treatment of overseas Chinese in Siam (see G-2 Report No. 9126, item 4), and there have been numerous evidences of other misunderstandings between the two peoples. China is thought to be willing to make some sort of commercial agreement but the Siamese have been afraid of Chinese business competition for many years and are not believed to desire closer commercial relations with that country.

3. Japanese Mission to Australia.

Mr. Debuchi, former Japanese Ambassador to the United States, passed through Hongkong on July 23rd. He is en route to Australia with the announced mission of promoting better trade relations between Japan and Australia.

4. Flood Situation.

Latest reports from Hankow indicate that serious danger to that city has been averted by the lowering of the Yangtze water level in the vicinity of the Wu-Han cities. The continual flood conditions which come every rainy season emphasize the necessity for the reforestation projects which the National Economic Council has for the territory in Szechwan and other areas from which the Yangtze receives its water. So far N.E.C. plans have accomplished very little in this work.

In Shantung the Huang Ho (or Yellow River) is causing much anxiety, and the territory north of Tsaochow and west of Yencheng in the southwest part of the province is suffering from floods. It seems that some of the surplus water from the Yellow River has overflowed into the Yun Ho and is threatening floods not only in Shantung but in the northeastern corner of Honan and the northwestern part of Kiangsu. The local inhabitants are strengthening the dikes in an effort to keep the water in hand.

According to the Chinese almanac there are five dragons to look after the water this year. Last year there was only one and so the rains were rather out of hand. The maximum number of dragons to watch the water is nine, which means a very dry year, so if this is true the five dragons this year should not allow serious flood conditions!

5. The Former Chinese Eastern Railway.

Since the acquisition of the Chinese Eastern Railway by the Manchoukuo Government and its incorporation with the South Manchuria Railway system - now the State Railways of Manchoukuo - special attention has been paid by the Japanese to the Hsinking (Changchun) - Harbin section. According to officials of the Railway Direction the necessary steps have been taken to convert this section from the old Russian broad gauge to the standard gauge. The road-bed has been repaired and re-ballasted and the actual change of the rails is expected to be made on the night of August 31st, so that traffic will not be interrupted.

When the Hsinking-Harbin line has been converted it is planned to run the new streamlined passenger train "Asia" from Dairen to Harbin in thirteen and a half hours. This will cut the former running time for this journey by about ten hours as no delay will be necessary to change from the S.M.R. trains to the Russian equipment and faster time may now be made over the improved road-bed.

The change of this section of the old Chinese Eastern to the standard gauge will also be of great military advantage and will enable the Japanese to run their troop, supply and armored trains over the combined Korean and Manchurian net to Harbin. It is expected that the next section to be converted to the standard gauge will be the line running from Harbin through Tsitsihar to Manchouli. This will not only serve a military necessity in linking with the Manchurian railway net but will make the use of the Russian railway equipment impossible in that area.

6. China's Unfavorable Trade Balance.

According to statistics published by the Chinese Maritime Customs Administration the total imports into China for the first half of 1936 amounted to $646,455,295 Chinese currency, while the exports amounted to $259,369,673 for the same period. It can be seen that the trade balance is an unfavorable one for China.

In comparison with last year the month of June 1935 alone shows a decrease of over two million dollars in imports and a decrease of over nine millions in exports for the same period, and it does not look as though this condition will be remedied in the near future.

In North China considerable Japanese goods are entering without being checked by the Chinese Customs authorities. This is true not only of articles carried on military vehicles but also of those on vehicles of recognized Japanese transportation firms.

7. Journalists Kidnapped.

On July 29th news reached Peiping to the effect that two foreigners had been taken by bandits in eastern Chahar. These men are Mr. Gereth Jones, a feature writer for the "Manchester Guardian" and Dr. Herbert Mueller, the Peiping correspondent for the "Deutsche Nachrichtenburo".

Jones and Mueller went to Chahar to see the horse racing and other festivities held recently north of Kalgan. Following this they decided to investigate conditions in that area. They went to Dolonnor and left there on the return trip on July 26th. They were held up and taken by bandits in the vicinity of Paochang, some eighty miles northeast of Kalgan and about fifty miles east and slightly south of Dolonnor.

Prior to their departure from Dolonnor, where they had been detained by the Japanese for two days, the correspondents were given a list of places where they could go and Paochang was included as being safe.

The Russian driver of the automobile was released and the bandits also allowed Dr. Mueller to leave in the hope of securing ransom for Jones. Mueller arrived in Kalgan on July 31st and in Peiping on August 1st. The Chinese authorities are taking measures to secure the release of Mr. Jones and Major Takahashi of the Japanese Military Attache's office in Peiping stated that he had instructed Japanese authorities in Jehol, Dolonnor and Kalgan to cooperate.

According to Dr. Mueller it is hoped that Jones will be released in a few days. The bandits are said to be former Chinese soldiers and treated the two captives very well. It is understood that the Chinese are negotiating with the bandits with a view to incorporating them into the 29th Army and if this plan does not work out, the ransom will be paid by the Chahar officials who seem anxious to secure the release of Jones before the Japanese do so. Negotiations have been conducted between the bandits and representatives of the Chahar "Pao An Tui" or Peace Preservation Corps.

Some months ago bandits were prevalent in eastern Chahar but recently the eviction of Yang Hou-hsiao - the "Little Monkey" - has made conditions peaceful. The area in which Jones and Mueller were captured is constantly crossed by Japanese automobiles going from Dolonnor to Hata Miao, Te Wang's Palace, and other places in that vicinity where Japanese investigation parties of the South Manchuria Railway, Kuantung Army and other agencies have been active. No bandit trouble has been reported by these parties and they would be the first to call attention to unsettled conditions in Chahar, using it as an excuse for closer Japanese supervision.

It is interesting to note that before Jones left Peiping he stated that he was particularly interested in investigating Japanese activities in North China and Chahar and intended to write some feature articles on this subject. It will be remembered that some weeks ago Miss Muriel Lester published some facts regarding Japanese dope traffic and narcotic organization in the Demilitarized Zone, which made them very bitter towards British journalists. Certain foreign opinion is of the belief that the kidnapping was engineered by the Japanese, and the Havas News Agency representative sent news from Kalgan to that effect in the clear, but couched in French slang! Perhaps this very capture of Jones and Mueller will be the necessity for Japanese "protection" or supervision in eastern Chahar.

It is difficult to get at the facts in the case as it is evident that Mueller is not telling the whole story as yet, fearing to jeopardize the safety and release of Jones.

8. Mussolini's Gift to Chiang Kai-shek.

Sino-Italian relations will no doubt be considerably improved by the gift which Il Duce is presenting to the Generalissimo. According to advices from Hongkong a giant Italian plane carrying a crew of seven has arrived there en route for Shanghai and Chengtu, where upon arrival it will be presented to Chiang Kai-shek as a gift from Mussolini.

The plane is said to be tri-motored and to have accommodations for thirty-two persons. It is understood that the present crew will remain for a short time at least in China, and certain of the personnel may stay with the plane. This latest effort on the part of the Italians to secure the upper hand in aviation in China is in line with their former policy in this respect. They no doubt hope to make this new plane the official one for use by the Generalissimo and supersede his American equipment.

9. Sino-Japanese Relations.

The ever present Sino-Japanese question continues to be interwoven so closely with the domestic political situation that it is often difficult to differentiate the exact pattern of either. In the North, Wang Ke-min is functioning as acting head of the Peiping Branch Political Council and the uncertainty as to whether General Ho Ying-chin will return to head the Military Council remains unsolved. Rumors still persist of an amalgamation of the two councils but no reliable information on this point is available.

Hsiao Chen-ying, the Special Delegate from Chahar who is known to many Chinese officials by another special name not so decorative, continues to try and negotiate unofficially with the Japanese with the purpose of cutting underneath the plans of the National Government with the end in view of getting himself made Mayor of Peiping and his chief, General Sung Che-yuan, promoted to a good post again. So far as is known his plan has not succeeded to date.

The Japanese have been pressing the Nanking Government with a view to direct negotiations with Chiang Kai-shek. They feel that his continued absence in Chengtu is "unfriendly" and desire his presence in Nanking where they can apply pressure directly upon him. The Generalissimo of course has been avoiding just this condition and has been endeavoring to carry out his policy of bandit suppression and internal reconstruction while retreating as slowly as possible from Japanese demands.

Apparently the Japanese are tired of these tactics and are demanding that Chiang come down from Chengtu. A spokesman of the Japanese Embassy in Nanking is reported to have stated that the Chinese had a matter of months to decide whether they would cooperate peaceably or whether the Japanese would be forced to take military action to stop the unfriendly attitude of the Nanking Government. Rumor has it that the Generalissimo will be forced to come down the Yangtze in the near future.

The fact that this seems imminent is believed to be the reason for Wang Ching-wei's poor health and the necessity for him to go to Tsingtao to recuperate. It appears that Wang has been unable to stall off the Japanese opposition in regard to Chiang's continued absence from Nanking and hence it was necessary for the Foreign Minister to visit the seashore. While there a surprising number of people have traveled an unusually long way to inquire about his health. Some prominent personages who made the trip to the Shantung summer resort were:

Chen Kung-po: Minister of Industry and a Wang appointee.
Huang Shao-hsiung: Chairman of Chekiang who has been in Chengtu for an important conference with Chiang Kai-shek, involving many important changes among Chinese officials (see G-2 Report No. 9108, item 7).
Fang Chieh-hui: an important Kuomintang member.
Tang Sheng-chih: adviser to the Ministry of War.
T. V. Soong: Secretary of the National Economic Council and former Minister of Finance. Is the brother of Madame H. H. Kung, Madame Chiang Kai-shek, and Madame Sun Yat-sen - the "Sung Dynasty".
Chang Fa-kuei: former commander of the famous "Ironsides" troops who has been in Europe for an inspection trip. As yet he has no position.
Sun Fo: President of the Executive Yuan and son of the famous Sun Yat-sen.

Apparently whatever else they did at Tsingtao, it is certain that efforts have been made to induce Wang to return to Nanking. At the present writing it looks as though these had been unsuccessful as on July 25th the decision of the Central Political Council to appoint Dr. H. H. Kung as head of the Executive Yuan pending Wang's recovery was approved by the Standing Committee of the Central Executive Committee of the Kuomintang.

Various motives have been assigned to the visitors and to the conferences held in Tsingtao. The Japanese have seized upon these events as the nucleus of a revolt against the Central Government led by Wang Ching-wei and Han Fu-chu, the Shantung Chairman, with the end in view of an independent state in the North.

No doubt the wish is father to the thought as it is known that General Itagaki, Vice-Chief of Staff of the Kuantung Army, believes that an independent state in North China is the only solution for Sino-Japanese relations. Itagaki was so quoted recently to a very reliable source by no less a person than Mr. Chuichi Ohashi, the Japanese who is acting as the Vice-Minister of Foreign Affairs of Manchoukuo. Ohashi further stated that while this was not the official view of the Tokyo Government, it was not possible to predict whether or not the Kuantung Army might take the matter in its own hands.

The attitude of the Kuantung Army is worthy of considerable study and Chinese opinion is divided as to the results of the recent changes in the Japanese War Office which are stated to be indicative of sweeping changes in the military establishment. Aside from the replacement of General J. Mazaki, the Inspector General of Military Training, and the relief of General Umetsu, who commands the Tientsin Garrison, little is heard in China of what these changes are to be. In Peiping it was reported that Major Takahashi of the Military Attache's Office was to be relieved by a Major Imai from Tokyo. This was subsequently denied.

In China there is one opinion that these sweeping changes, if made, may indicate that the Foreign Office will take its normal place in negotiating with China and that the usurpation of its prerogatives by the Kuantung Army will be curtailed. The other school of thought also anticipates a unified policy, but a stronger one in which the Foreign Office will work in harmony with the Kuantung Army. Looking from this side of the Great Wall the former would seem more probable but lack of information regarding the personnel of the new deal prevents proper evaluation. Considering events from the point of view of China it is safe to say that she will remain on the sidelines in her own game for some time to come.

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Assistant Military Attache

No. 9178 1st Ind. JWS:elh
Office of the Military Attache, American Legation, Peiping, China, August 2, 1935 - To: Chief, Military Intelligence Division, Washington, D.C.

Approved.

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COMMENTS ON CURRENT EVENTS

March 16 -- 29, 1935

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1. The National Government
    - China and Geneva
    - Silver Shipment Arrives
    - Immigration to Manchuria
    - New Currency Loan
2. Compulsory Athletics
3. Japanese Good Will Flight
4. Hongkong Maneuvers
5. New Japanese Attache
6. Radio and Telegraph Consolidation
7. Japan and League Advisers
8. Chinese Eastern Railway
9. Situation in Inner Mongolia

1. The National Government.

China and Geneva.

Chinese governmental sources state that through the efforts of Mr. Lo Chung-yi, the Minister to Denmark, the following arrangement has been made with the League of Nations regarding China's contribution: (1) annual contribution will be reduced by G. Frs. 120,000 to G. Frs. 1,270,000, (2) the 1931-1934 arrears to the value of about G. Frs. 3,000,000 are completely cancelled, (3) consolidated arrears are reduced by about G. Frs. 2,000,000 and (4) the period for paying the remaining portion of consolidated arrears will be set to 45 years.

These terms have not as yet been ratified by the National Government. They will save China about 500,000 gold francs a year and will remove the stigma of default.

Silver Shipment Arrives.

The first shipment of silver amounting to three million dollars arrived in Shanghai from London on March 24th. This is part of the amount purchased by the Central Bank, the Bank of China and the Bank of Communications to counteract the shipment of silver from China which has been taking place against government regulations for some time (see G-2 Report No. 9029, item 1).

Immigration to Manchuria.

Instructions have been issued by the Oriental Tourist Bureau, which handles through train traffic between Peiping and Mukden, to the effect that from March 22nd all Chinese entering Manchuria must fulfil the following:

1. Possess a certificate that the bearer has a bona fide job in Manchuria or a letter from some organization showing that the bearer is employed.
2. Possess some kind of working tools or machinery.
3. Fill in a form at the Headquarters of the Japanese Garrison Force in Shanhaikwan.

The Chinese consider this ban on their nationals entering Manchuria as a ruse on the part of the Japanese to restrict contacts between the Chinese inside and outside the Great Wall. They state that the Japanese are planning to prohibit Chinese in Manchuria from either sending money or bringing property from Manchuria into China. No evidences of the latter have been observed.

The actions of the Japanese are believed to be for the purpose of securing a better class of immigrants than formerly and admitting only those who show a reasonable possibility of being able to support themselves. By this they hope to prevent large numbers of Chinese without means of support from descending upon Manchuria and later becoming a problem to support or turning bandits.

With the long border line between China and Manchuria it is doubtful whether the Japanese will be able to control immigration of individuals and small groups who can evade the main gates through the Great Wall. They can however control the large number that move along the usually travelled routes and via steamers.

The Peiping Political Council has been advised by the Foreign Office to lodge a protest with the Japanese regarding the restriction of Chinese travellers but it is not expected that this will have much effect.

New Currency Loan.

On March 27th the Legislative Yuan approved the regulations governing the issue of the $100,000,000 silver Twenty-Fourth Year Currency Loan, which is to be secured on the increased revenue from the customs. According to Dr. H.H. Kung, the Minister of Finance, the loan will be used to increase the capital of certain banks. $30,000,000 will go to the Central Bank, $25,000,000 to the Bank of China, and $10,000,000 to the Bank of Communications. The remaining $35,000,000 has not been allocated or if so, the information has not been made public.

This loan is one of the means used by the Government to counteract the export of silver from China and to try and make the money situation easier. Another method is the adoption of regulations for the exchange of miscellaneous silver for standard silver dollars.

2. Compulsory Athletics.

According to plans of the National Government, compulsory physical training will be undertaken in all schools and government offices. Chiang Kai-shek in recent instructions to all government and Kuomintang offices called attention to the fact that many officials are fond of an easy life and take no interest in athletics and has directed that physical education be taken more seriously as of obvious benefit to the nation.

The pertinent part of the instructions reads as follows:

"It is hereby ordered that faculty members and the student body of all schools above secondary grade, the teachers of primary schools, and the public functionaries in Party, Government, and military organs be strictly instructed each to select at least one form of athletic games or recreation; and that the ranking officials of the organs concerned and the principals of the various schools be responsible for organization and supervision of athletic training.

"The services of physical directors should be engaged. Group training should be carried out every day from 5 to 6 p.m. (in winter from 4 to 5 p.m.). This training must be continual and regular.

"Should outdoor training be found impracticable either on account of stormy or snowy weather, remedial measures should be devised and adopted by the ranking officials concerned, as well as the various Provincial Departments of Education."

The Government has undertaken a huge task here which is in line with the other features of the "New Life Movement". It is the intention of the officials to allow each organ to work out its own physical education problems rather than to prescribe a uniform program at this time. Later this is intended to be handled from a central bureau.

3. Japanese Good Will Flight.

The "Tokyo Asahi" airplane left Tokyo early on March 21st and arrived in Nanking in the afternoon of the same day, making the run in nine and a half hours. The plane carried a pilot and mechanic who made the flight as a good will gesture on the part of the Japanese press in general and the "Tokyo Asahi" in particular. They were entertained by the Chinese Press Association and left for Shanghai on March 22nd.

This plane is one of the ships which made the good will flight from Japan to Peiping for the "Osaka Asahi Shimbun" in September 1934 (see G-2 Report No. 8915, item 5). It is a Kawasaki C-5 Puss Moth.

While the advantages of a good will flight are appreciated by many of the Chinese newspaper men, there has been considerable comment regarding the flight from another point of view. Many of the Chinese feel that it is in the way of a veiled threat, for if a commercial plane can make the trip in a short time it would be no journey at all for military machines, particularly the longer range bombing ships.

4. Hongkong Maneuvers.

On March 22nd and 23rd the British garrison in Hongkong held maneuvers to test the defences of the Colony. The exercises were conducted with the combined Army, Navy and Air Force units participating and consisted in landing operations by the Blues and defence of the island by the Reds.

These are the first combined maneuvers of this type ever held in Hongkong and are in line with the recent ones held at Singapore (see G-2 Report No. 9017, item 5). They are indicative of the renewed interest that Great Britain is taking in measures to protect her interests in the Far East.

5. New Japanese Attache.

Lieutenant-General Yoshimichi Suzuki, senior Military Attache of the Japanese Legation in China, left Shanghai on March 18th for Dairen. He has been ordered to Korea to command the 19th Infantry Division.

His place will be taken by Major-General Rerusuke Isogai, whose last assignment was in charge of the Second Section of the Japanese General Staff in Tokyo. General Isogai is said to be an authority on China.

6. Radio and Telegraph Consolidation.

The Ministry of Communications has been conducting experiments in combining the administration of the telegraph and radio offices in Nanking, Hankow, Shanghai, Tientsin and Peiping. These have proved satisfactory and on March 18th the Ministry issued instructions for the amalgamation of the telegraph and radio offices in twenty other cities including Tsingtao, Canton and Amoy.

The placing of these two means of communication under one administration would seem to be in the interests of efficiency. The move of course is meeting with opposition due to the fact that some of the personnel will be eliminated in the amalgamation, but it is expected that this will be taken care of by finding positions in other branches of the government service for the few extra persons involved.

7. Japan and League Advisers.

The Japanese continue their efforts to oppose the work of the League of Nations in China and as an example of the type of propaganda used the following item from the Manchuria Daily News is of interest:

> "Mr. Robert Haas, representative of the League of Nations' committee on technical help to China, who recently arrived in Shanghai, is at work in Shanghai and frequently visits Nanking, according to reports reaching Kokutsu in Dairen.
>
> "These reports assert that Mr. Haas is hard working to the dual end of frustrating the proposed Sino-Japanese rapprochement and of replenishing armaments in North China by obtaining necessary funds from a source in the United States.
>
> "It is said that Mr. Haas was instructed by the League of Nations before his departure for China to the effect that he should work for consolidating Soviet-Chinese relations.
>
> "In view of alleged British and American plans to counteract the fast materializing Sino-Japanese co-operation, Mr. Haas's present activities are said to be attracting considerable attention in Japanese circles there."

8. Chinese Eastern Railway.

Preliminary negotiations having proceeded satisfactorily (see G-2 Report No. 9075, item 9), the final transfer agreement for the sale of the Chinese Eastern Railway by Russia to Manchoukuo was signed on March 23rd. The two contracting governments were represented as follows:

Russia: Mr. Constantin C. Yureneff, member of the C.E.C. of the U.S.S.R. and plenipotentiary representative of Russia in Japan.
Mr. Benedict I. Kozlovsky, chief of the Second Eastern Department of the Soviet Commissariat for Foreign Affairs.
Mr. Stepan M. Kuznetsoff, Vice-Chairman of the Board of Directors of the Chinese Eastern Railway.

Manchoukuo:
Lieut. General W. S. Y. Tinge (Ting Shih-yuan), Envoy Extraordinary and Minister Plenipotentiary to Japan.
Mr. Chuichi Ohashi (Japanese), Vice-Minister of Foreign Affairs of Manchoukuo.
Mr. Wu Tse-sheng, adviser to the Directorate-General of the Chinese Eastern Railway.

The Transfer Agreement consists of fourteen articles, a copy of which has been submitted in a separate report this date. It is interesting to note that the agreement is also signed by Mr. Koki Hirota, the Japanese Minister of Foreign Affairs, whose name appears between the signers for Manchoukuo and those for the Soviet Government!

The basic agreement for the transfer having been signed there were two other documents concluded which had been previously prepared. These were the Soviet-Manchoukuo Protocol and the Tripartite Protocol between Japan, Manchoukuo and the Soviet Government. All these documents were written in the English language. These documents will be forwarded at a later date, together with the notes exchanged between Hirota and Yureneff and between Hirota and Tinge, which are believed to be of interest as a matter of record.

It should be noted that throughout the Transfer Agreement and subsequent documents that the "Government of Manchoukuo" is used as being the party with which the U.S.S.R. is dealing. While no mention of recognition of Manchoukuo is made it is quite evident that Russia implies the recognition of such an institution as otherwise she would not enter into agreements and conclude protocols with a nation which she does not credit as having sovereign rights.

This final transfer settles the immediate destiny of the "World's most troublesome railway" and it has after a number of years reached a definite status. It will become the property of Manchoukuo and be turned over to the South Manchuria Railway for administration and development under the strategic plans of the Japanese General Staff. The first move will be to change the gauge of the road from the broad Russian to the standard four feet eight and a half inch to correspond with the South Manchuria Railway. A single gauge for Manchurian lines will be a great convenience in transporting passengers and freight as well as a military necessity and the Japanese are greatly pleased. Increased development in Manchuria may be expected as the result of the unification of railways and a great thorn in the side of Japan has been removed.

The Russians too are satisfied and very glad to get rid of the C.E.R. The remarks of Commander Lepin, the Russian Military Attache to China, are interesting in this connection. He stated that there would be no advantage in retaining the road as the Japanese would use every ruse short of war to obstruct the operation of the line, which in case of war would be lost to Russia in the first stages of the conflict. At the end of any war Russia would retake the railway anyhow and the purchase price received at this time would be just that much gained. It is believed that Lepin's statements represent the general view of the Russian officials in China regarding the sale of the railway and that they are glad to see the matter settled.

9. Situation in Inner Mongolia.

The situation in Inner Mongolia has taken a turn for the worse and conditions there are tense once more. The Suiyuan authorities are unable to conclude the tax agreement proposed by General Ho Ying-chin (see G-2 Report No. 9075, item 5) because of the continued opposition of Yen Hsi-shan and the Suiyuan provincial forces at Hashatu, northwest of Pailingmiao.

The whole dispute regarding the tax collection has rested on the unwillingness of the Shansi authorities to consider the Mongols as deserving of consideration. The camel caravans carrying millions of dollars worth of opium pass through Mongol territory on their way to Kweihua, from whence the opium is divided between Suiyuan and Shansi provinces. For years the tax has been collected on the Chinese border and the Mongols have received nothing for the thousands of miles of their territory over which the caravans have travelled nor for the protection afforded against Chinese bandits on the border regions.

Now the Mongols have reached a point where they are determined to have the matter settled. The Nanking officials in Suiyuan are siding with the Mongols. Ho Ying-chin has suggested a compromise as to the amount of the tax to be given the Mongols to which both the Mongols and the Suiyuan authorities are willing to agree, but Yen stands adamant and refuses to consider Mongol claims. General Ho does not feel in a position directly to order Fu Tso-yi to withdraw the troops sent into Mongolia to prevent Mongol tax stations being established.

As previously reported, the Chahar authorities have sent representatives to Te Wang and offered to take opium through Kalgan, giving the Mongols a proper portion of the opium tax. The Mongols have secured six motor trucks and have sent them into Kansu with the purpose of engaging in the opium trade themselves. They take the stand that if the Suiyuan and Shansi officials can do this type of business without due regard to Mongol claims then the Mongols should have equal business opportunities.

The Suiyuan authorities are opposed to any such scheme as it would be the entering wedge in breaking up what amounts practically to a monopoly on the opium trade which they have enjoyed for some years. Their answer to the sending of the six motor trucks by the Mongols was to despatch two regiments of Suiyuan provincial troops to the vicinity of Hashatu where they have dug trenches. They announce that the six trucks will not be allowed to pass. The Mongols say that they have a perfect right to conduct this or any other venture in their own territory as they please and that the Suiyuan troops are trespassing upon their land and must leave.

As the situation grows increasingly tense, General Ho Ying-chin shows a greater desire to have the matter settled by the two contending parties. He has proposed a measure which has been turned down by Yen Hsi-shan, and as mentioned before, He does not wish to issue orders to Fu Tso-yi which might embarrass the Nanking Government just at the time when important matters are being discussed vis-a-vis Sino-Japanese relations at Nanking. As this report is being written Prince So, one of the two heads of the Autonomy Council in Mongolia, is conferring with Yen Hsi-shan and it is hoped that some compromise may be effected.

Mongol contacts in Peiping state that five thousand Mongol cavalry which they have available are equal to fifteen thousand Suiyuan provincial troops and this is believed to be true as long as the ammunition of the Mongols holds out. While it is believed that both sides will avoid actual conflict if any other means of settlement presents itself, yet the fact that armed forces are facing each other in Inner Mongolia provides sufficient inflammable material which a spark might set into a blaze of serious proportions.

For and in the absence of the Military Attache:

S. V. Constant
S. V. Constant
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COMMENTS ON CURRENT EVENTS

March 30—April 12, 1934

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1. The National Government -
    - Another Silver Shipment
    - Chiang's Titles
    - Bank Syndicate
    - Compulsory Labor
2. T. V. Soong's New Post
3. C. E. R. Property in Shanghai
4. Dutch Minister Leaves
5. League Advisers
6. Japanese Consular Conference
7. Economic Reconstruction Movement
8. Extraterritoriality Again
9. Emperor of Manchoukuo Visits Japan
10. Inner Mongolian Affairs

1. The National Government -

Another Silver Shipment.

On April 7th another shipment of silver amounting to $2,925,000 arrived in Shanghai from London. This is the second shipment which has been received recently from England as the result of purchases made in that country by the Foreign Exchange Stabilization Commission. The first shipment arrived on March 24th (see G-2 Report No. 9084, item 1).

These two shipments of silver have eased the situation in Shanghai considerably. It is too early to state what effect these purchases and other efforts of the government will have on the financial condition of the country in general.

Chiang's Titles.

General Chiang Kai-shek has just been appointed Field Marshal of the Chinese Army, the highest military post in China. This is but one of the numerous posts and titles held by the Generalissimo, as he is most commonly known.

In this connection and in reply to Evaluation Report dated February 25th, it should be noted that the posts held by Chiang which were mentioned in G-2 Report No. 9029 were only examples of the most important. He is still a member of the standing committee of the Central Political Council and has other titles as well.

Bank Syndicate.

Following the issue of the 24th Year Currency Loan to increase the capital of the Central Bank, the Bank of China and the Bank of Communications, financial circles state that these institutions are planning to form a syndicate. This move is said to be for the purpose of extending credit to local commercial and industrial organizations as a measure to relieve the present financial situation.

Compulsory Labor.

The press report as to compulsory labor in Chekiang, referred to in Evaluation Report dated February 25th, is but one of the many instances of action following the telegram of Chiang Kai-shek on the subject. Compulsory labor is not new in China but has been utilized for hundreds of years. Chiang's interest in the matter is in line with the plans of the National Economic Council for the systematic reconstruction of China. Plans are being prepared for this in many parts of China and are expected to be worked out following the N.E.C. schedules instead of in the hit and miss manner of former years, when reconstruction depended upon the whims of the regional warlords.

The fact that the plans for Chekiang were more prominently mentioned in the press is perhaps due to the geographical location of that province nearer Shanghai where news from it would be likely to come to the attention of the foreign press correspondents. News from parts of China not reached by foreign newspapermen still continues to be meagre and mostly inaccurate though the National Government news agencies are making progress. Naturally their material is very friendly and flattering to the Nanking regime and its works.

2. T. V. Soong's New Post.

On April 1st, at the first meeting of the new board of directors of the Bank of China, Mr. T. V. Soong, brother-in-law of Chiang Kai-shek and former Minister of Finance, was elected Chairman. The meeting was presided over by Dr. H. H. Kung, the Minister of Finance, who is himself married to one of T. V. Soong's sisters.

Since his resignation as Finance Minister, Soong has been devoting his attention to the work of the National Economic Council. It is quite evident that in the present financial troubles of the National Government his brains and experience are needed again in financial matters. There is a persistent rumor to the effect that Soong is being prepared again to be Minister of Finance, but this does not appear likely at the present time in view of the Japanese interest in China's financial situation and Soong's definitely known opposition to co-operation with that country.

Upon his appointment Mr. Soong gave out an interview to the press in which he stated, "I am deeply convinced that the Government will not adopt a policy of inflation."

3. C. E. R. Property in Shanghai.

According to advices from Shanghai, certain property there belonging to the former Chinese Eastern Railway (see G-2 Report No. 9075, item 9) has been taken over by the South Manchuria Railway. A few days ago the Japanese Legation issued a statement to the effect that as a result of the sale of the C.E.R. by Russia to Manchoukuo, the Shanghai properties of that railway had passed under the control of Manchoukuo with the signing of the sale agreement.

The Japanese statement also noted the fact that the wharves and other property of the C.E.R. had been taken over by the South Manchuria Railway, which company would hereafter manage them on behalf of the North Manchuria Railway, the name recently given the C.E.R. by the Japanese.

It is expected that the Chinese Government will protest this action but to date no such step has been taken.

4. Dutch Minister Leaves.

Mr. W. J. R. Thorbecke, The Netherlands Minister to China, left Peiping on March 28th for home. The Chinese Foreign Office has been informed that Mr. Bosch van Drakestein, Secretary of the Legation, has been appointed Chargé d'Affaires.

While Mr. Thorbecke is stated to be going on furlough, it is the general belief that he will not return to China.

5. League Advisers.

Mr. Robert Haas, Chief of the Communications Section of the League of Nations, who has been inspecting various provinces in connection with the work of the National Economic Council, arrived in Nanchang from Hankow on April 5th. He expects to look over the reconstruction work in Kiangsi and then to return to Shanghai via Hangchow.

Much comment has been heard among Chinese engineers of late regarding trips of League experts. Adverse sentiments were openly expressed at the recent annual convention of the Association of Chinese and American Engineers in Peiping regarding League experts who travelled over China and after making reports left the country. It was the concensus of opinion of the members that a foreign engineer should be resident in the country for a long enough period to know something of the conditions here before he is competent to recommend ways and means of handling engineering problems. The interesting point was that there was no objection to a foreign expert as such but to men such as League advisers who spend but a few weeks in China and then feel themselves qualified to prescribe methods of procedure.

6. Japanese Consular Conference.

A three day conference of Japanese Consular officials in China opened in Shanghai on April 8th. It was presided over by Mr. A. Ariyoshi, the Japanese Minister. Consular representatives from Tientsin, Canton, Anking, Tsinan, Tsingtao, Hankow, Foochow, Shanghai and Amoy were present.

According to Japanese sources the important points to be discussed at the conference include:

(1) Anti-Japanese goods activities in various cities.
(2) Attitude of the Chinese people toward Japanese in various cities.
(3) Conditions of Japanese nationals in various cities.
(4) Sino-Japanese economic relations in various cities.
(5) Facilities of Japanese consuls and the living conditions of the consulate staff in various cities.

It is believed that this conference has been called largely for the purpose of obtaining a survey of the present status of the anti-Japanese boycott in China at the present time. When conclusions have been reached they are expected to be placed in the hands of Mr. Heitaro Yokotake, the Commercial Attache of the Japanese Legation in China. Mr. Yokotake has just returned from a visit to Japan where he made some forty speeches regarding conditions in China. Mr. Yokotake's report on boycott conditions will likely be the basis for continued Japanese pressure upon the Chinese Government to discontinue anti-Japanese activities.

7. Economic Reconstruction Movement.

Reliable information received from Kweiyang indicates that General Chiang Kai-shek intends to organize a new national movement which is to be complementary to the New Life Movement. This new plan will be called the People's Economic Reconstruction Movement and will be carried out no doubt along the general lines decided upon by the National Economic Council.

The aims of the movement are expected to be as follows:

(1) Development of agriculture and improvement of agricultural products.
(2) Protection of mining enterprises and exploitation of mineral resources.
(3) Fostering of industry and commerce and of co-operation between capital and labor.
(4) Building of roads and development of communications.
(5) Readjustment of currency and employment of capital on reconstruction projects.

The above aims are only a general picture of the movement as the details have not been worked out as yet. This movement and the New Life Movement are a definite attempt on the part of the Central Government to unify China and cement the loyalty of the people to Nanking in an endeavor to break up the traditional local loyalties of the Chinese. It is a difficult task but much has already been accomplished which ten years ago would have seemed impossible. These movements also are believed to have the definite purpose of diverting the activities of students and other progressive elements in the country from anti-Japanese activities, which would be embarrassing to Nanking at the present time, to the problems of the internal reconstruction of China.

8. Extraterritoriality Again.

The "extrality" question which for some time has lain dormant appears to be due for another airing. This is forecast by the action of certain officials of the Judicial Yuan and the Ministry of Justice who are advocating the creation of a special committee to study measures preparatory to the abolition of extraterritorial rights in China.

The question has not been brought up officially as yet but it is understood that the Minister of Justice, Mr. Wang Yun-ping, will appoint a committee for preparatory study of the matter from the Chinese viewpoint.

With the increasing strength of the Nanking Government and the growing nationalistic spirit in China, it is inevitable that the "extrality" issue should come to the fore again. The question that foreign nations will have to face is whether or not the progress in China has been sufficient to warrant the surrender of the rights of foreign nationals to be tried in the courts of their respective countries.

9. Emperor of Manchoukuo Visits Japan.

Pu Yi, formerly Emperor of China and now Emperor of Manchoukuo, arrived in Yokohama April 6th on the Japanese battleship "Hiyei". He is being shown great honor in Japan and an elabroate program has been prepared for his entertainment. His visit, which will last until April 22nd, is not discussed in detail as it is believed that the matter will be more adequately handled by other agencies of the United States Government in Tokyo.

10. Inner Mongolian Affairs.

During the last few days the papers have carried reports to the effect that the dispute between the Suiyuan authorities and the Mongols over the opium tax (see G-2 Report No. 9084, item 9) has been settled. This is not exactly the case as the matter has not been definitely decided though some progress has been made and the danger of an armed clash has been averted. The Suiyuan troops are preparing to withdraw from Hashatu and the prospects for a peaceful settlement are brighter.

The whole negotiations have taken a new turn according to confidential information obtained from Mongol sources taking part in the discussions. It will be remembered that when the matter reached a deadlock some weeks ago and the Suiyuan Chairman sent troops west of Pailingmiao, representatives of Chahar visited Te Wang. At first unwilling to become involved in the matter, Sung Che-yuan, the Chahar Chairman, has now come openly into the negotiations and arrived at the Palace of Te Wang (Te Wang Fu) near Narranboluk or Je Ch'uan, as it is called in Chinese, on April 11th. Prior to his arrival he had sent twenty thousand dollars, five hundred rifles, some machine guns and ammunition to Te Wang as an evidence of good faith.

The proposals of the Mongols, upon which Sung is said to have agreed in principle, contemplate all the camel trains of opium from Ninghsia and Kansu passing through Inner Mongolia and entering China proper through Kalgan in Chahar instead of through Kweihwa in Suiyuan as at present. Naturally the Suiyuan authorities and Yen Hsi-shan of Shansi are opposed to this but with Sung Che-yuan on the side of the Mongols and with the plan having the tacit consent of Nanking, the former are not in the strong position they were before. Now the Mongols can and have received arms from Chahar with the knowledge and consent of Ho Ying-chin and the Suiyuan military are not able to dictate to the Mongols as they were when they controlled the only line of communication - from Kweihwa to Pailingmiao. The alignment of Chahar with the Mongols has completely upset the balance of power along the Inner Mongolian border and the Mongols are hopeful of better things ahead.

The officials of the Nanking Government through Ho Ying-chin are not adverse to this turn of affairs as they have been embarrassed and hindered many times in the past by the Shansi-Suiyuan combination. They have not been able to enforce their will on Yen Hsi-shan and Fu Tso-yi without resorting to arms, a measure which Chiang Kai-shek has been anxious to avoid for obvious reasons. This present plan of the Mongols to cooperate with Chahar therefore works out to the advantage of all concerned except Yen and Fu.

Here however the Mongols have evolved a plan which is most interesting. The Suiyuan authorities and the Mongolian Autonomy Council will have representatives in Mongolia to check the amount of opium which passes through en route to Kalgan. On this Chahar will remit to Suiyuan the sum of twenty-four cents silver on every ounce of opium. Thus the Suiyuan authorities will get almost as much tax money as when the opium was passing through their own hands. This fact, coupled with avoidance of the difficulty of dealing with the Mongols backed by Chahar, is thought to be compensation enough for them for the present.

Just what part of the tax money the Chahar people will give the Mongols has not been decided as yet but the Mongols state that assurances have been given of a satisfactory settlement. The whole matter is still in process of discussion and there are expected to be some changes in details before the affair is settled, but the scheme as outlined above and furnished by the Mongol representatives who conceived it is believed to be the true basis upon which final settlement will be effected.

S. V. Constant
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Office of the Military Attache, American Legation, Peiping, China, April 12, 1935 - To: Chief, Military Intelligence Division, Washington, D.C.

Approved.

W. S. Drysdale
W. S. Drysdale
Lieutenant-Colonel, Infantry
Military Attache

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COMMENTS ON CURRENT EVENTS

August 3 - 16, 1935

RECEIVED G/2 W.D. SEP 10 1935

1. The National Government:
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    Parcel Post Regulations
2. New President for S.M.R.
3. Chinese Currency
4. British Property in Kuling
5. Journalist Still Held.
6. Sino-Japanese Relations
7. Affairs in North China
8. Japan and Inner Mongolia

1. The National Government:

Diplomatic Changes.

Foreign Office information is to the effect that Mr. Liu Chung-chieh, Chinese Minister to Germany, will return to China this fall. His successor has not been announced. Mr. Liu has been in Germany about two years. He is a Fukien man and a graduate of Waseda University, Japan. Prior to his appointment to Germany, Liu was in Peiping and very close to General Huang Fu.

The newly appointed Chinese Minister to Belgium, Mr. Chu Niu-hsiang, left Shanghai on August 7th for Brussels. Mr. Chu was born in Kiangsu. He is a graduate of Louvain University and has held various official positions both in North China and Nanking.

Baron de Vos van Steenwijk, the new Netherlands Minister to China, arrived in Shanghai on August 10th. Baron de Vos served in Peiping from 1929 to 1931 and has also been on duty in Washington.

Parcel Post Regulations.

With a view to facilitating the handling of domestic parcels post the Postal Administration has announced that effective August 1st all domestic parcels will be exempt from Customs examination at the time of mailing, except those addressed to the Three Eastern Provinces and Jehol (now Manchoukuo), and those containing certain articles. The articles in question are military supplies, narcotics, needles, moving picture films, radio supplies, rolled tobacco and tobacco leaves, cigarettes, revenue stamps, tax certificates, bullion, gold and sodium chloride.

New President for S.M.R.

The appointment of Mr. Yosuke Matsuoka to be the President of the South Manchuria Railway is of particular interest at this time when there is likely to be a contest between that great organization and the Japanese Army for the upper hand in the development of the new empire in Manchuria. Whatever the result, the trade-mark "Made in Japan" will remain but with Mr. Matsuoka at the head of the S.M.R. it is believed that the Army will not have it all its own way.

Mr. Matsuoka attended Oregon State University and has an unusual command of the English language besides a good understanding of how to deal with Occidentals. He entered the diplomatic service in 1924 and has served in China at the Legation in Peiping and later as Consul-General at Shanghai. Leaving the diplomatic service for politics he was made a Director of the South Manchuria Railway and later promoted to Vice-President. He also served as a member of the Japanese Diet.

His appointment as special representative of the Japanese Prime Minister in Shanghai during the Sino-Japanese trouble in 1932 brought him again close to Chinese affairs, which stood him in good stead when he went to Geneva as Chief Japanese Delegate to the League of Nations. While of course he did not accomplish what Japan wished at Geneva, yet he won the praise of his own countrymen, which was a difficult task under the circumstances.

His present appointment as President of the S.M.R. is one of the biggest posts the Japanese have to fill at the present time. The S.M.R. is in charge of the operation of all the railways in Manchuria and in addition has the functions of a vast industrial and colonization combine whose activities stretch into almost every corner of the country. Not only that, but with the possibility of certain phases of economic cooperation being forced on North China by the Japanese, it cannot be doubted that the S.M.R. will be the spear-head of Japanese penetration there as it was in Manchuria prior to Japanese occupation.

It is known that the Japanese Army has been striving for a reorganization of the S.M.R. with a view to limiting its activities to those of an ordinary railway administration and it was believed that it had practically succeeded in its attempt. The demand of the Army is for a military control and a strategic plan for the development of Manchuria with the military interests predominant. The S.M.R. administration has held out primarily for economic development. Perhaps Mr. Matsuoka will be able to effect a compromise so that the S.M.R. will not lose entirely its characteristics which have made the organization such an important one in the life of Manchuria. He is a strong character and an able one and the S.M.R. is fortunate. His task may be made easier in dealing with the Kuantung Army by the fact that he is reported to be most acceptable to General Minami, Commander-in-Chief of the Kuantung Army and Ambassador to Manchoukuo.

3. Chinese Currency.

For some time, due to the high price of silver in other countries, large amounts have been leaving China. The Chinese Government has been making efforts to stop this and has purchased silver in London (see G-2 Reports Nos. 9081, item 1, and 9096, item 1). These efforts have not been sufficient to meet the shortage. Regulations were promulgated providing for the exchange of miscellaneous silver articles for standard silver dollars in the hope of bringing more silver currency into circulation to counteract the export (see G-2 Report No. 9077) but this failed to make any marked difference.

The last few months have seen large amounts of silver smuggled out of China by Japanese and Koreans through Shanhaikwan to Manchuria. An actual case is known when eleven Japanese and Koreans entered a compartment occupied by a foreign woman and a Japanese woman, and divested themselves of vests sewn solid with silver dollars. This was done as the train left Peiping. The vests were placed under the berths by the Japanese woman and given next morning to the same persons who reappeared from third class carriages. A train guard entered the compartment, took one of the vests and retired - apparently his price for not reporting the affair.

The Chinese Customs officials have tried to stop smuggling on the Peiping-Liaoning Railway but have been but partially successful. As they applied pressure there silver began to flow out through Tsinanfu to Tsingtao. One hundred dollars in silver coin can be exchanged for as high as one hundred and thirty dollars in Chinese bank notes in the Japanese Concession in Tientsin, so it is no wonder that the smugglers are plentiful.

With the shortage of silver it is now very difficult to get actual silver dollars even in foreign banks. The Japanese banks quote their bills of exchange in Chinese paper money and seem to be getting rid of this class of currency. They are willing to quote prices for American dollars and British pounds considerably above those paid by other banks and they pay as noted in actual paper money instead of check or Compradore's Draft, which is usual in transfer of funds from one bank to another. They give the distinct impression that they are anxious to get rid of their stocks of Chinese paper money at any cost.

Dr. H. H. Kung, the Minister of Finance, repeatedly denies rumors of currency inflation but on the other hand stories in banking circles persist that the Nanking Government is going to make banks call in their own notes and issue only Central Bank notes which must be secured from that institution by deposit of silver or other suitable security (see G-2 Report No. 9165, item 3). Should this take place and the Central Bank notes cease to be redeemable in silver, it would seem to be just another name for inflation.

In this connection it should be noted that the Japanese Yen is worth considerably less than the Chinese dollar at the present writing. It is quite evident that the Japanese are determined to secure "economic cooperation" surely in North China and to improve the situation vis-a-vis Japanese trade in China in general. Should the Chinese Government be forced into an impossible financial situation, the plans for linking the

Chinese dollar with the Japanese Yen, which have been advanced by the Japanese, may be the only solution. In view of the facts stated above it is quite possible that the Japanese have tried their best to undermine Chinese currency with the purpose of using the resulting condition to their own advantage.

4. British Property in Kuling.

The recent press reports that the British Concession in Kuling, near Kiukiang in Kiangsu Province, had been retroceded to China are in error. The land in question was known as the "Little Estate". It had formerly belonged to a Briton of that name and for many years has been administered by a British committee of missionaries who use the land. The property was in no sense a concession.

The present negotiations between the British Consul-General at Hankow and the Chinese authorities at Kuling place the property under Chinese jurisdiction as in the case of property of foreigners in other parts of China outside foreign concessions, but the Chinese have given the interested Britishers a perpetual lease on the ground in question.

5. Journalist Still Held.

Mr. Gareth Jones, the British journalist who was captured by bandits in Chahar Province (see G-2 Report No. 9178, item 7), has not been released as yet. Latest information indicates that he is alive and well but has been handed over to another bandit group who are moving nearer to Jehol. It would not be surprising to hear that Jones had been released near the Manchoukuo border due to the efforts of the Kuantung Army.

While indications point to Japanese being implicated in this matter, every effort is being made to keep such reports out of the press for fear their publication will jeopardize the release and possibly the life of Mr. Jones. The stories told to different persons by Dr. Mueller, who was with him but released, differ considerably and the whole truth will not be known until Jones can speak for himself. Perhaps even then he will not know what actually occurred as he speaks no Chinese.

6. Sino-Japanese Relations.

The domestic political situation continues to be influenced by Sino-Japanese relations. Chiang Kai-shek still remains up in Szechwan and will endeavor to postpone his return to Nanking until the time for the Sixth Plenary Session of the C.E.C., which is expected to be held early in the autumn (see G-2 Report No. 9178, item 1).

Wang Ching-wei is busily regaining his health at Tsingtao but shows no outward willingness to assume his arduous duties with the Ministry of Foreign Affairs in Nanking. From sources close to the Government it is learned that Chiang Kai-shek has decided that his policy of passive resistance to Japan must be modified. He and Wang Ching-wei are stated to be in agreement upon this point and Wang was left to hold the sack in Nanking and interpret this policy while Chiang carried on against the bandits in Szechwan.

Wang had a difficult task. This policy, even though it might only have meant a slight change in outward attitude was a sharp swing in the opposite direction. Chiang had built himself on the support of the old Whampoa (Canton) Military clique and the Tangpu (Kuomintang). These two factions would be violently opposed to any measures which savored of co-operation with Japan. Wang is stated to have done his best but matters finally reached the point where he must bring affairs out into the daylight. He advised Chiang Kai-shek of the conditions existing in Nanking, but the Generalissimo took no action. Hence Wang used the time honored method of the Chinese and joined the ranks of the distinguished invalids, going to Tsingtao.

As previously reported, many politicians visited him there to inquire about his health and to try and induce him to return. From some of them he learned that Dr. H. H. Kung, the Minister of Finance, was trying to replace him as head of the Executive Yuan. When Kung was actually made acting head of this body, Wang became so angry that he decided to return to Nanking at all costs and try and carry on in some fashion until the opening of the Sixth Plenary Session, when he would force Chiang Kai-shek to assume responsibility for a policy vis-a-vis Japan. His first gun in the campaign for return to Nanking was his telegram of resignation on account of ill health. Expecting no action on this - and none has been taken so far - Wang is now in a position to recover his health and take up his duties again should the proper pieces in the political puzzle appear at hand in the near future.

Apparently Wang's resignation has started the ball rolling. Chen Kung-po, the Minister of Industry, and Ku Meng-yu, Minister of Railways, have resigned and their action was followed quickly by Wang Shih-chieh, the Minister of Education. To be in line with his chief, Chu Min-yi, the Secretary-General of the Executive Yuan, has also asked to be relieved of his office. Chiang Kai-shek has telegraphed to all these officials asking them to retain their posts and perhaps they may remain. It is believed that efforts will be made to retain the present governmental set up at least until the Sixth Plenary Session scheduled for the end of September.

7. Affairs in North China.

The question of Japanese pressure has become more vital in the North during the past few days and has centered around the shooting of Captain Liu Tso-chou at the Lanchow station of the Peiping-Mukden Railway. Liu was in charge of the Peace Preservation Corps in the Luantung area of the Demilitarized Zone and had received his appointment upon Japanese recommendation. From the best available confidential information it is believed that the whole affair was an inside job due to jealousy of Liu's subordinates and an effort to secure his post. Unfortunately in the shooting one of the Japanese guards at the railway station was wounded.

The affair at once became serious. Colonel Sakai, the Chief of Staff from Tientsin, accompanied by Colonel Giga from Shanhaikwan, called on Wang Ke-min, the acting head of the Peiping Branch Political Council and stated that the matter was very serious, a slap in the face of the Kuantung Army and a virtual declaration of War. Sakai asked Wang if a certain Tao Shang-ming was implicated and upon receiving a negative answer took his departure. Tao Shang-min was one of the officials who was in charge of the administration of the Demilitarized Zone in the area from Luanchow to Shanhaikwan. He had been relieved upon Japanese insistence and just given a minor position in Peiping. When Sakai left Wang he returned to the Japanese Embassy and telephoned to Tao, who had arrived in Peiping the same day, asking him to meet him there. Tao arrived and was turned over to the Japanese military police. He has been confined in the Embassy ever since.

The Chinese state that Tao was disliked by certain Japanese and that one of his Chinese enemies told these Japanese that Tao was implicated in the plot to shoot Liu. The Japanese have not officially admitted that Tao was held, but Major Takahashi, the Military Attache in Peiping, has said unofficially that "Tao would be released soon". Tao has been close to the Japanese for years and is a returned student from Tokyo. He was formerly connected with the Japanese advisory body of the late Marshal Chang Tso-lin. Recently, however, he appears to have fallen into the bad graces of the Japanese and it is believed that they think he caused the shooting of Liu out of spite for his own removal from office in the Luanchow-Shanhaikwan area.

The attitude of the Kuantung Army now seems to be that if it can be proved that the Japanese guard was wounded as the result of an attack on Liu, the Chinese need not fear any action from them, provided the culprits are brought to justice. These sentiments were expressed by General Umetsu, the commander of the Japanese troops in Tientsin, who is soon leaving for Japan, at a farewell dinner given for him by Mr. Wang Ke-min. However this may be, the incident remains and the Japanese will put any interpretation upon it that they see fit, despite the facts in the case.

Investigators have been sent to Luanchow by the Peiping Branch Military Council, General Shang Chen and the Japanese. The reports have not been completed. As noted before, this office has information from sources which have heretofore proved reliable to the effect that the shooting of Liu was an inside political job, engineered by his own subordinates who were anxious to secure promotion and more pay than Liu would divide with them.

The results of the Luanchow affair are not apparent. The Japanese press has published reports of certain things which may be done. These include everything from the enlarging of the Demilitarized Zone to the guarding of the Peiping-Mukden Railway from Peiping to Shanhaikwan! The next few weeks should bring to light just what the Japanese desire from this incident.

8. Japan and Inner Mongolia.

There are indications that the Japanese have not forgotten their interest in Inner Mongolia, and in this connection the actions of Major Takahashi of the Peiping Embassy are interesting. Some days ago he left Peiping for a journey to Paotingfu to call upon General Shang Chen, the Hopei Chairman. His next stop was Taiyuanfu where he called upon General Yen Hsi-shan, the Pacification Commissioner of Shansi and the actual power in that province.

On August 13th, the Chairman of Shansi, General Hsu Yung-chang, arrived in Peiping for a conference with Wang Ke-min, the acting head of the Political Council. It is reported that he will enter the Peiping Union Medical College to be treated for stomach trouble but just how soon he will join the ranks of "distinguished invalids" is not known. Whether or not Takahashi's visit to Yen accounts for Hsu's trip to Peiping is undetermined. Yen of course not only controls Shansi but also Suiyuan and any Japanese activities in Chahar toward Shansi and Suiyuan would strike into Yen's territory.

As this report is being prepared Major Takahashi has again moved toward Inner Mongolia. He left Peiping by airplane for Kalgan just on a "curiosity trip" so he said, as he had never visited this part of China. He was accompanied by Colonel Hasegawa, the Commandant of the Japanese Embassy Guard, who went "for a vacation". Rumors persist of military activity in the Dolonnor area which can only be aimed at Inner Mongolia but the Mongols believe that considerable spade work needs to be done before the Japanese take military action in their territory. They believe that if the Kuantung Army was ready to move against them they would not waste time worrying about reorganizing a Peace Preservation Corps in eastern Chahar.

The Mongols say that the Japanese are talking an independent Mongolia allied with Manchoukuo and holding out great promises of the building up of a Mongol nation such as existed under Genghis Khan. Such a plan has long been the dream of the Mongol Princes and it is good bait to entice them away from China. Had the Japanese been more cautious in their handling of the Mongols in Manchuria, such a scheme might have received the support of the Inner Mongolian dignitaries.

Had the Japanese treated them even as the Russians have organized Outer Mongolia the map of Asia might have been considerably changed. However, the Kuantung Army lacked foresight in these matters and as soon as it occupied Manchuria put the Mongols there under a very close supervision and control to which they had never before been subjected. Such treatment at once aroused the ire of the nomad bannermen who had been used to the patriarchal guidance of their Princes. It is true that the Japanese scheme did much good as in the treatment of diseases which are so prevalent among the Mongols, but while the physical result was good the psychological effect was bad and it made the tribesmen very anti-Japanese. These sentiments of course reached Inner Mongolia at once from the many Manchurian Mongols who fled from the Japanese rule.

The Mongols are not only worried by reported Japanese military preparations in Dolonnor but also regarding the various investigating parties from the South Manchuria Railway and other Japanese agencies which have been in eastern Chahar within the last few months. They look with apprehension upon the numerous trips of Japanese armored cars in that area and the uncertainty caused by the Mueller-Jones kidnapping incident, which they feel sure was sponsored by Japanese. The Princes are all very apprehensive at this time.

Confidential. The latest gesture of the Kuantung Army was to offer to present an airplane to Te Wang, the Secretary of the Mongolian Political Council. Prince Te has been trying to avoid negotiations of any kind with the Japanese and refused the plane on the grounds that as long as Inner Mongolia was part of China, it would not be proper for him to accept gifts from another country. Just how long he will be able to put them off remains to be seen, but it is the opinion of this office that the Mongols will not willingly join the Japanese or Manchoukuo.

.... End of Confidential Part.

If the Japanese demand a decision or the Mongols see Japanese occupation as a certainty, they may try to make terms believing that they will receive more as an ally than would be possible if they resisted or refused the Japanese. These views have been stated before, but are repeated in view of the consistent reports from various sources to the effect that the Mongols were not loyal to Nanking. They have remained willing to cooperate with Nanking in every way, even though the Chinese have repeatedly failed to live up to their promises to the Mongols, because the Mongol Princes believe that they can deal with and outwit the Chinese. They know they cannot cope with the power of the Japanese Army should it decide to take action in Inner Mongolia and will avoid negotiations with Japan as long as possible.

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Office of the Military Attache, American Legation, Peiping, China, August 16, 1935 - To: Chief, Military Intelligence Division, Washington, D. C.

Approved.

Joseph W. Stilwell,
Joseph W. Stilwell
Lieutenant-Colonel, Infantry
Military Attache

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COMMENTS ON CURRENT EVENTS

August 17 - 30, 1935

RECEIVED G/2 W.D. SEP 23 1935

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1. The National Government:

Ambassador to Japan.

General Chiang Tso-pin, Chinese Ambassador to Japan, who has been in China since July 7th, left Shanghai for Tokyo on August 26th. His family did not accompany him, since he expects to return in September for the Sixth Plenary Session of the Central Executive Committee of the Kuomintang.

While in China Chiang flew to Chengtu for special conferences with the Generalissimo. The Japanese state that he returns to Tokyo with assurances of more cooperation between the Nanking Government and the Japanese, but the Chinese have given no indication of this.

Chinese sources report that General Chang Chun, Chairman of Hupeh, will visit Japan on a special mission in the near future. Chang, it will be remembered, was formerly Chief of Staff to Chiang Kai-shek and is a graduate of the Tokyo Staff College. He has been mentioned as possible Ambassador to Japan in the contemplated rearrangement of political posts already mentioned (see G-2 Report No. 9165, item 7).

Consular Appointments.

On August 26th the Ministry of Foreign Affairs announced the appointment of Mr. Hsu Nien-tseng and Mr. Shen Chin-yi to be Consuls-General respectively at Hanoi and Saigon. These appointments are the result of the Sino-French commercial treaty ratified recently (see G-2 Report No. 9178, item 1). Mr. Hsu is at present stationed at Haborovsk and Mr. Shen is in Rome.

The appointment of Mr. Chien Chia-tung as successor to Mr. Hsu in Haborovsk was published on the same date.

Chilean Charge d'Affaires.

The Ministry of Foreign Affairs has announced the receipt of a wire from the Chinese Minister to Chile to the effect that the Chilean Government has appointed M. Lopez as Chilean Charge d'Affaires to China and concurrently Consul-General at Shanghai. M. Lopez has been Director of the Department of Intelligence and Publicity of the Chilean Ministry of Foreign Affairs.

2. Kidnapped Journalists.

The mystery surrounding the fate of Gareth Jones, the British journalist who was kidnapped in Chahar (see G-2 Report No. 9185, item 5), was ended on August 18th when his reported death was confirmed. His body was discovered on August 13th and it is believed that he was shot on the previous day. Captain Millar, a language student from the British Embassy sent to investigate the case and try to secure Jones' release, identified the body of a foreigner found some distance from Paochang as being that of Jones.

According to investigations by British authorities it appears that Jones was shot three times by the bandits, but the reason for the shooting cannot be ascertained. The Chahar authorities were believed to be doing all that they could to negotiate with the bandits and it seems unlike usual Chinese bandit kidnappings to have shot Jones in cold blood with no apparent cause. It can only be assumed that he was shot as the result of some disagreement among the bandits or upon orders of whoever instigated the original kidnapping.

Dr. Mueller, the companion of Jones, who was released by the bandits, was called to account by Major Takahashi as having made a statement reflecting upon the Japanese Army officials in Dolonnor. Mueller replied that while the Japanese had advised regarding the route they should take, he believed that they had done so with the best of intentions and the desire to help the travellers.

3. Espionage Case.

A foreigner known as Joseph Waldon and six Chinese were found guilty of espionage by the Hupeh High Court last week. Waldon had been held by the Shanghai Municipal Police for some weeks as he refused to state his nationality. Finally he claimed to be French.

The French authorities investigated Waldon's claims but could find no proof to substantiate them and he was turned over to the Chinese for trial. The character of the charges has not been announced. Hupeh officials state that the sentence will be announced in the near future.

4. Flood Conditions.

The flood situation has improved in the Hankow region and in Shantung (see G-2 Report No. 9178, item 4), but is dangerous along the Tientsin-Pukow Railway in the vicinity of Hsuchow. Here the waters of the Yellow River are flowing to the south from the Weishan Lake and have risen on both sides of the railway embankment. On August 28th the high water was within three miles of Hsuchow proper.

Trouble with the Yellow River is also reported from Suiyuan following the collapse of some of the dikes in the western part of the province. The southern part of the province has also been subject to high water and there is a possibility of damage along the Peiping-Suiyuan Railway. In the last year considerable relocation work has been done on this line in an effort to get the embankments away from high water danger and it is believed that these improvements have been successful.

5. Sir Reginald Johnston.

Sir Reginald Johnston, Professor of Chinese at the University of London and former tutor to Pu Yi, arrived in Japan on August 24th on his way to Manchoukuo. Sir Reginald was formerly a member of the British Colonial Service and afterwards became tutor to Pu Yi when that individual was Emperor of China.

Sir Reginald states that he is going to Hsinking where he will be received in audience by his pupil, now Emperor Kang Te of Manchoukuo. Some question has been raised as to whether or not Johnston will be offered a post with the new empire. A monarchist at heart, he has been an ardent supporter of Pu Yi as Emperor of China and obviously believes in the divine right of kings to rule in Manchoukuo as well.

"Twilight in the Forbidden City", Sir Reginald's story of his observations while tutor to the Emperor of China, is well worth reading. It covers many points of historical interest untouched by other authors and the emphasis placed on the author's part in the drama is only natural and does not detract from the general accuracy and value of the record.

6. Italy and Chinese Aviation.

The Italian interest in Chinese aviation continues to be apparent. Mussolini's gift plane arrived at Nanchang and was formally presented to Chiang Kai-shek (see G-2 Report No. 9178, item 8). The Generalissimo is stated not to have been very pleased with the new ship. On August 23rd he left Nanking in it for Chengtu via Hankow, his bodyguard following in two Ford planes. The Italian plane then returned to Nanking for use by Madame Chiang.

The plane presented by Mussolini, while only two years old, is typical of the models which we had in the United States about 1927. It is a Savoia, S-72, tri-motored, high winged monoplane. It has wing flaps but these look as though they had been added recently. The landing gear is the old fixed type and the engines are uncowled. The propellers are also fixed. The wings are plywood and the fuselage is of steel tubing covered with fabric. It is estimated that the ship will be a heavy gas burner with a possible speed of from 120 to 130 miles per hour.

Shanghai despatches of August 26th announce that Colonel Silvio Scaroni, pilot of the Italian plane, has been appointed chief Italian adviser to China. If this statement is true he will replace General Lordi, who left for Italy a few days ago. General Lordi is stated to have been actually functioning as Chief of the Chinese Air Corps. In this capacity it is learned that he has had friction with the Generalissimo's German advisers and has stated to them that they could not issue orders to his Italian officers who were members of the Italian Air Service. It is believed that the prestige and influence of the Italians are on the wane.

In considering the matter of Italian planes, it is a matter of conjecture as to how long the Italians will be willing to support their mission to China and to furnish her with planes on credit terms which seem impossible from a business point of view. So far the Italian venture shows entirely on the expenditure side of the balance sheet with no prospect of a change for the better. What Mussolini expects to compensate for this is not known.

7. Manchoukuo Officials from Japan.

As the difficulties in administration in Manchoukuo increase more and more Japanese are being sent to fill posts in the new Empire. At the start some of these went through the motions of becoming citizens of that country but this is a rare exception at the present time. Many of the original Japanese office holders have been replaced by more carefully picked men and it is believed that in future only the best will be sent. General Minami is stated to be responsible for this policy.

During the last few days three Japanese have been picked to hold important places in the Manchoukuo Government. Mr. Kiyoshi Tsutsui, who has been Second Secretary of the Japanese Embassy, has been appointed Director of the Manchoukuo Bureau of Intelligence and Publicity. Mr. Seiki Yano and Mr. Setsui Hirose, formerly employed in the Japanese Foreign Office, have just been selected as heads of the Asiatic Section and Russian Section respectively of the Manchoukuo Foreign Ministry.

These appointments are but the natural result of Japanese occupation and the number of Japanese who will be used in official positions in Manchoukuo will increase. Needless to say the Manchoukuo Government has no voice in the matter but must cut its cloth and present it for the "Made in Japan" chop.

8. Sino-Japanese Relations.

Outwardly at least there appears no recent change in the relations between China and Japan, the latter continuing in her policy of increasing her influence on the mainland of Asia. To the Occidental mind it seems impossible that Chiang Kai-shek will be able to continue his present attitude toward Japan much longer. It would appear that Japanese pressure must break down even Chinese inertia and their policy of passive resistance. It is amazing how long such a condition has existed and therefore it becomes increasingly difficult to arrive at any true picture of just what turn the course of events will take, and just what path the Nanking Government, or rather Chiang Kai-shek, will be forced to follow.

With the Generalissimo in Chengtu, Wang Ching-wei recuperating from his ills in Tsingtao, and important officials resigning every day, it looked for a time as though Chiang had his back to the wall. However, on August 19th we see Wang returning to Nanking by air and the Generalissimo and Madame Chiang arriving there in the new Italian gift plane. Dr. H. H. Kung with his family and T. V. Soong arrived the next day and the gathering of the clans was complete enough for a conference. Various meetings were held, resignations were rejected wholesale, and on August 23rd Wang Ching-wei issued a circular telegram to all important officials announcing that he would resume his duties as head of the Executive Yuan and Minister of Foreign Affairs. The Generalissimo left Nanking the same day for Chengtu via Hankow, but Madame Chiang did not accompany him.

It is impossible to ascertain just what Chiang did or said which caused Wang to continue in office. If the best available information from Chinese sources can be credited, the Generalissimo announced that the policy of Wang Ching-wei in dealing with foreign nations, meaning of course Japan, was his own policy. The Japanese press is quite outspoken on this point and quotes Chiang Kai-shek as agreeing to cooperation with Japan and announcing to the assembled leaders of the Government that Wang's policy in this regard was his own policy.

That the Generalissimo made any such statement is to be doubted but it is believed that he must have given Wang some intimation that he would stand behind Wang's administration. It is believed that this condition will exist at least until the Sixth Plenary Session of the Central Executive Committee, which is scheduled to take place in September. General opinion is to the effect that there will be considerable changes in political offices following this conference and while many of them will be due to internal politics it is believed that the important changes will come as the result of the Sino-Japanese situation, which is bound to be interwoven with domestic politics for some time to come.

Various factions have signified their willingness to attend the Plenary Session, including the stormy petrels of the Kwangtung-Kwangsi clique. This was arranged no doubt during the recent visit of General Huang Shao-hsiung, the Chekiang Chairman, to Canton. Huang is a Kwangsi man who has been able to retain the friendship of the Southwestern leaders and also remain in the good graces and confidence of Chiang Kai-shek.

Another possible visitor to the Plenary Session is Feng Yu-hsiang, who is stated to be preparing several measures for consideration. If he runs true to form these will demand opposition to the growing Japanese influence in the internal affairs of China. Some elements are evidently opposed to the recent activities of Feng as according to Japanese press reports his assassination was attempted on August 26th.

It is certain that whatever elements are present in Nanking in September, internal politics will be influenced by the ever present question of Sino-Japanese relations and conducted in the presence of the spectre of increasing Japanese influence in China's internal affairs.

9. Situation in North China.

The situation arising due to the shooting of Captain Liu Tso-chou in the Demilitarized Zone (see G-2 Report No. 9185, item 7) has calmed down, and the alleged murderer has been apprehended and has confessed. He is a former junior officer who suffered in the reorganization of troops in the Demilitarized Zone and sought to revenge himself upon Liu. Incident to this affair, Mr. Tao Shang-ming, who had been kept a prisoner in the Japanese Embassy in Peiping since August 3rd, was released on August 23rd. The retention of a Chinese by force in the Japanese Embassy is believed to be an incident worthy of note and to furnish meaty material for discussion by students of international law. The Chinese lodged a diplomatic protest against Tao's detention on August 12th and the opinion seems to be that the Japanese military would have released him sooner if the protest had not been made.

Present Chinese plans for North China indicate that General Sung Che-yuan, former Chairman of Chahar, will be made Garrison Commander of the Peiping-Tientsin area in place of General Wang Shu-chang, who will be given a post on the Military Advisory Board in Nanking. Wang is a Fengtien man and almost the last one of that once powerful Fengtien military clique left in North China.

It will be remembered that the securing of a good post himself and incidentally for Sung has been uppermost for some weeks in the mind of Hsiao Chen-ying, Special Delegate from Chahar (see G-2 Report No. 9178, item 9). The post for Sung amounts to nothing but brings Hsiao nearer to his goal of being Mayor of Peiping. Hsiao is reported to have been conducting separate negotiations with the Japanese, but even if this is the case the appointment of Sung to a post so near the Japanese is difficult to understand. Sung Che-yuan and Yü Hsueh-chung have been the only two outstanding opponents of the Japanese in the North for some months past. Yü has been moored and it is hard to explain just how the Kuantung Army would be willing to leave Sung in Peiping. Of course the post has no power and the occupant actually controls only a few hundred bodyguard troops and indirectly about fifteen hundred military police (hsien ping) or gendarmes. Hsiao may have given guarantee of Sung's inability to cause trouble. Sung, however, is the rough and rugged type of soldier who has always been ready to fight and has been characterized by some as being simple enough to fight the Japanese! So looking at the appointment from all angles it is hard to see just how it fits into the picture. The Nanking Government may have done it to spite Japan for forcing Sung's removal from Chahar and if this is the case his tenure of office may be expected to be short. In any event he will have more power than the usual garrison commander as he has some elements of his 29th Army in the vicinity of Peiping.

Wang Ke-min, whose peace of mind has not been improved of recent days due to the shooting of Liu Tso-chou in Luanchow and the murder of Gareth Jones in Chahar, had planned to call a session of the Peiping Branch Political Council on August 29th.

As acting head of the Council he had sent invitations to the Chairman of the Northern Provinces and the Mayors of the Special Municipalities, but before preparations could be made for the meeting Wang was called to Nanking. He left Peiping on August 24th and is expected to return to Peiping on August 29th. No date has been set for the postponed meeting of the Political Council, but certainly no developments can be expected until after the return of Wang to North China.

It is quite likely that one of the main reasons for Wang's hurried departure for Nanking was the status of the negotiations for through air traffic between China and Manchoukuo. Just what the hitch is cannot be determined. The Japanese already have a military line running weekly on the route Chinchow-Shanhaikwan-Tientsin-Peiping-Jehol-Chinchow, but regular commercial traffic has not been opened. Under present conditions it would seem that the Japanese could demand that such be done, but apparently they are working from another angle. South Manchuria Railway equipment runs on alternate nights from Peiping to Mukden over Chinese railways and it would be another step for the Manchoukuo commercial air lines to use the Chinese landing fields. Very likely it is just this point on which the Chinese are balking. They cannot refuse Japanese military planes and the South Manchuria Railway is Japanese. The commercial air lines of Manchoukuo, however, are another matter and to allow their equipment to operate in China would be a sort of recognition that such a country as Manchoukuo exists. Recognition of the new empire is a hard pill for the Chinese to take but just how long they will be able to refrain from swallowing this bitter medicine is problematical.

10. Japan Watches Inner Mongolia.

The Japanese have not only decided to secure their position in eastern Chahar by enlarging the Demilitarized Zone to include the Great Wall at Kalgan (see G-2 Report No. 9189) but are pushing their representatives westward along the Peiping-Suiyuan Railway. The recent visit of Major Takahashi of the Japanese Embassy in Peiping to Taiyuanfu and his meeting with General Yen Hsi-shan (see G-2 Report No. 9185, item 8) are believed to have been in connection with this move.

It has been announced that the Japanese will establish "Resident Officers" in Taiyuanfu and Kweihwa in the near future with possibly one in Ninghsia. These officers are under the Tokyo General Staff and are not subject to the orders of the Military Attache, though they are closely connected with him. The Japanese have had them in other parts of China for many years. Their names do not appear on the Diplomatic List nor on the roster of the Japanese Army Forces in North China, whose headquarters are in Tientsin. Their status therefore is a peculiar one and creates a condition which would not be tolerated in any other country. In the past the Chinese have protested in private against this system of "Resident Officers" but both sides have refrained from mentioning it in public.

This recent move of the Japanese is different in that they acknowledge they intend to send these officers and the Chinese Government has given public recognition of the fact. This came in an interview given by Wang Ching-wei when he stated that the Japanese had not been sent as yet in view of the fact that it was necessary for the local officials to secure the permission of the National Government before foreign officers could reside in Taiyuanfu and Kweihwa. This statement is merely for the purpose of saving face as it is known that a Japanese officer has been living in Taiyuan for some months and that the one for Kweihwa left for that place a few days ago. The Ninghsia appointee has not been mentioned and so far as is known there is no Japanese officer in that province.

Rumors still persist regarding Chinese participation in the new industrial corporation which is to be a Sino-Japanese plan of cooperation for the development of North China and Inner Mongolia. It is believed that the Japanese part of the company is already organized but active participation by Chinese will be believed when actually seen. This may come later as the result of Japanese pressure but there are no indications of it at the present writing.

From foreigners close to Japanese interests in Dairen it is learned that this company will be especially interested in the development of the Peiping-Suiyuan Railway and its possible extension to the west. It seems evident that this enterprise will be directed by the South Manchuria Railway interests no matter what the corporation may be called when it appears on the boards in North China.

S. V. Constant.
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Office of the Military Attache, American Legation, Peiping, China, August 30, 1935 - To: Chief, Military Intelligence Division, Washington, D. C.

Approved.

Joseph W. Stilwell
Joseph W. Stilwell
Colonel, Infantry
Military Attache

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COMMENTS ON CURRENT EVENTS.

August 31st - September 15th, 1935.

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1. The National Government:
    - Lin Sen Returns.
    - Legislative Yuan.
    - Provincial Budget Regulations.
    - Diplomats Present Credentials.
2. Kuomintang Affairs.
3. China - Manchoukuo Communications.
4. High Water in Kiangsu.
5. British Railway Mission.
6. China and Japan in Inner Mongolia.
7. Espionage Case.
8. Sino - Japanese Relations.

1. The National Government:

Lin Sen Returns.

Mr. Lin Sen, the Chairman of the National Government, returned to Nanking on September 3rd from Kuling where he has been spending the summer months to avoid the heat of the Yangtze valley. He travelled up river on the cruiser "Chung Shan", accompanied by Vice-Admiral Chen Hsun-yung.

Legislative Yuan.

After the six week summer recess, the Legislative Yuan opened again on August 30th. Items up for immediate discussion include the regulations for the examination of District Magistrates, the Organic Law of the National Health Administration and the rules governing the issue of the Kwangtung Provincial Reconstruction Bonds.

Provincial Budget Regulations.

Dr. H. H. Kung, the Minister of Finance, has proposed that new regulations be promulgated regarding the drafting of provincial, municipal and district budgets and he intends to submit his plans to the Executive Yuan in the near future. Under this system the budgets of local administrations would be open to the public and all items of revenues and expenditures are to be included.

An interesting departure from established customs in China is the provision that each citizen would have the right to refuse payment of taxes and levies for items which are not included in the budget.

Diplomats Present Credentials.

Arrangements have been made for three foreign diplomats to present their credentials in the near future. Dr. Oscar Trautman and Mr. Nelson T. Johnson, the German and American Ministers, will present their credentials as Ambassadors on September 14th and 17th respectively. Baron de vos van Steenwijk, the new Netherlands Minister, will present his letters on the 19th.

From M/A, China. Report No. 9201. September 13, 1935.

Kuomintang Affairs.

On September 6th the Standing Committee of the Central Executive Committee of the Kuomintang announced that the date for the meeting of the Sixth Plenary Session of the C.E.C. would be postponed from September 20th to November 1st. At the same meeting which was presided over by Mr. Wang Ching-wei, it was decided that the Fifth National Congress of the Kuomintang would be held on November 13th.

Recent events indicate that Kuomintang operations in the South as well as in the North are feeling the Japanese pressure. It will be remembered that the Kuomintang activities in Hopei Province have been practically eliminated and all offices closed down. The same has been done in Chahar and within the last week in Suiyuan and Shansi Provinces also. Now comes the word from the South that the Kwangtung Provincial Kuomintang's propaganda will be curtailed as from September 1st. The same has been done in Fukien Province.

The fact that the National Government has been able to curtail Kuomintang activities in South China is indicative of the control that Chiang Kai-shek has been able to exercise in that area but is a small ray of hope for China in the increasing cloud of Japanese pressure and influence. The Kuomintang appears to be losing much of its original purpose and not to be the active agent of former years.

3. China - Manchoukuo Communications.

According to Colonel Yoshiharu Takeshita, Chief of the Special Service Office of the Kuantung Army at Shanhaikwan, the through telephone service now operating between China and Manchoukuo will be extended from Mukden to Hsinking and Harbin on October 1st. At the present time there is fairly satisfactory telephone connection between Tientsin and Mukden, and some of the foreign newspaper correspondents have used this method in getting their news out of China when the censors were strict on the question of Sino-Japanese relations.

4. High Water in Kiangsu.

The flood menace in the vicinity of Hsuchow in northern Kiangsu has increased in the past two weeks. The waters of the Yellow River which have been rushing from the Weishan Lake on the Shantung - Kiangsu border continue to rise and the country east of Hsuchow for some miles is completely under water.

The Pulao River north of Hsuchow has overflowed both its banks and the water has spread to the south with the result that nearly two hundred small villages and settlements are submerged. To make matters worse a section of the Grand Canal has overflowed also in the vicinity of Peihsien, northwest of Hsuchow.

The flood conditions have threatened to interrupt traffic on the Tientsin-Pukow Railway and many of the trains have arrived late in the last few days. The Lunghai Railway is also in danger as the roadbed and bridge foundations of this line as well as the Tsin - Pu have been weakened by the floods.

5. British Railway Mission.

Brigadier-General Sir Frederick Hammond, head of the British Railway Mission which arrived in China last May (see G-2

Report No. 9126, item 5) has completed his investigation of Chinese railways and left for England on September 9th. During his stay in China Sir Frederick Hammond and his two associates, Mr. Legg and Mr. Taylor of the Great Western Railway, have been over practically all Chinese railways with the exception of the Peiping - Mukden line.

His report, which contains suggestions and recommendations for the improvement of the Chinese Government Railways, has been submitted to the Ministry of Communications. Sir Frederick declined to make any comments on his investigations in China, stating that all he had to say was contained in his report.

6. China and Japan in Inner Mongolia.

Inner Mongolia has been the scene of both internal trouble and international intrigue during the past few weeks. The internal difficulties have been in the West Oirat Banner (Hsi Kung Ch'i) of the Olanchab League which is located in the western part of what is now called Suiyuan Province. Dorlchi, the Banner Chief, had been holding up some of the tax on the opium which passed through his Banner territory on camel caravans bound for Powtou, the terminus of the Peiping - Suiyuan Railway.

Officials of the Mongolian Political Council discovered this and also the fact that Dorlchi was in cahoots with the Chinese authorities of Suiyuan to cheat the Mongols out of their rightful share of the tax money. The Council decided to dismiss Dorlchi but that individual refused to abide by their decision on the grounds that his title was hereditary and had been passed down in his family for several hundred years. He further appealed to the National Government against the ruling of the Mongolian Political Council.

The Political Council sent Mongol troops to inforce its decree but word has not been received as to whether any fighting took place in West Oriat. In the meantime the National Government has sent representatives in an endeavor to negotiate between the Council and Dorlchi but it is believed that they will have very little weight with the Mongols who resent the National Government interfering in what they consider purely a matter for decision by their own Princes. The whole question is further complicated by the fact that Ah Wang (Prince Ah) of the Khangin Banner in the Ordos was involved in the intrigue with Dorlchi.

The Ordos Mongols have taken up Chinese ways as much as any of the Mongol people and many have become practically tenant farmers for their Princes. The other Banners resent this condition with the result that the people of the Ordos are not trusted by the other Mongols who are always suspicious that their brothers of the Ordos are involved in some questionable deal with the Chinese officials of Suiyuan.

The Mongolian Political Council is now meeting to settle the case of Dorlchi and the succession in the West Oriat Banner. The Mongols believe that Dorlchi was involved in the tax trouble through the efforts of Ah Wang who is supposed to be in League with the Chinese officials of Suiyuan. No messages have been received from Pailingmiao recently, so it is not possible to tell the exact status of this matter.

Another question which is before the Pailingmiao Council at this time is one of international intrigue involving the Japanese. For some time the Japanese have been endeavoring to strengthen their influence in Inner Mongolia. They have succeeded in causing the removal of Sung Che-yuan from his post of Chairman of Chahar Province and in having his troops moved south of the Great Wall.

In dealing with Te Wang (Prince Te), the Secretary of the Mongolian Political Council, however, the Japanese have not been so successful and it is apparent that they do not wish to use direct force in Inner Mongolia just at this time. Their present plan is to work along another line. According to reliable Mongol sources the Japanese are trying to make an agreement or force one with Prince So of Abaga Banner of the Silongol League which is located in the territory directly north of Dolonnor.

It will be remembered that the Kuantung Army had established a radio station and had sent a number of Japanese dressed as Lamas to the Palace of the Prince of Abaga Banner (see G-2 Report No. 9126, item 9). This was an entering wedge and now that their negotiations with Te Wang have not satisfied them they have evolved another scheme. This plan, according to reliable Mongol sources, is to make an agreement with the Prince of Abaga Banner, by persuasion or by force as before mentioned. The Japanese wish to supply him with fifteen hundred rifles and a suitable amount of ammunition. They hope that So Wang will then be in a position to influence by diplomacy or arms the remainder of the Princes in general and Te Wang in particular.

With fifteen hundred rifles in his possesion So Wang would be the most powerful military factor in Inner Mongolia and with the Japanese backing him or forcing him, the Abaga Wang could cause all kinds of trouble. This might lead to the unification of Inner Mongolia by force, or, if this did not prove a good plan, the Japanese could use the incidents caused by So Wang's fifteen hundred well armed Mongols as an excuse for the use of the Kuantung Army to "restore peace in Inner Mongolia".

It is interesting to note that another source brings the information that the fifteen hundred rifles to be given to So Wang were those taken from various Chinese units in eastern Chahar after the removal of Sung Che-yuan and all troops save the "Pao An Tui" or Peace Preservation Corps. Even this police force was decreased and all extra arms and ammunition confiscated by the Japanese (see G-2 Report No. 9186, item 3). These rifles given to Prince So would be effective against the other Mongols but not against the Japanese. However, these arms could be captured and shown to the world as evidence that the Chinese Government was "not sincere" and had supplied the Mongols with arms to fight against the Kuantung Army!

There is some talk in foreign circles that Inner Mongolia is considering joining with Outer Mongolia in an effort to present a united Mongol front to the Japanese. This move is not considered likely. In the first place the Russians appear afraid to have the Outer Mongolians come into contact with their brothers to the south for fear they will become dissatisfied with the Soviet regime.

The Inner Mongolians, governed by their Princes, think little for themselves, but their rulers would be averse to giving up their hereditary power for any form of government under Soviet influence. Even the Mongols in Manchoukuo are allowed to have their own Princes, so it seems most unlikely that a joining of Outer with Inner Mongolia is a probability. The matter is mentioned because it may have reached the United States through the press but it is the belief of this office that such an union is not only impracticable from a Mongol point of view but unachievable from any other in view the fact that the Japanese would use all means at their disposal to circumvent and override with force, if necessary, any move toward this end by the Mongols.

The Japanese aim in Inner Mongolia is believed to be the establishment of one or more buffer states between Soviet-influenced Outer Mongolia and Manchoukuo. Whether several states will be formed under Japanese influence or whether it will be more auspicious to make one large one or even a separate "Meng Ku Kuo" or "Country of the Mongols" where Inner Mongolia and the Mongol territory of Manchoukuo would be combined in one, remains in the hands of fate and the events which may result from the continued pressure of the Kuantung Army. It is known that the latter scheme has been broached to prominent Mongol Princes with the bait that this "Meng Ku Kuo" would be allied with Manchoukuo and its Emperor in the same manner as the Mongols were allied with China under the Ching Dynasty. The Japanese with their Imperial complex cannot visualize that the Mongols received the titles and rank of the Manchu Court without any particular loyalty to the Imperial Family. Japanese psychology works along different lines and it appears impossible for them to realize that the tempting prospect of an alliance under Emperor Pu Yi, formerly head of the Manchu Court in China, means little or nothing to the Mongols each of whom is far more loyal to his own Banner Prince than he ever dreamed of being to the Ching emperor in Peking.

7. Espionage Case.

The Hupeh Court has announced that the sentence for espionage in the case of Joseph Waldon or Walden is to be imprisonment for fourteen years (see G-2 Report No. 9193, item 3). The prisoner, often called "Mr. X", is now believed to be a certain Mr. Maximus Rivosh formerly of Berlin. Two Americans, Julius C. Lemoke and Eugene Brinson were arrested and held in Hankow on the charge of attempting to rescue "Mr. X", but were released in the custody of the United States District Attorney, Mr. Watson, who flew up from Shanghai. The circumstances surrounding the attempted rescue have not been announced.

8. Sino - Japanese Relations.

The spot light in Sino - Japanese relations has again centered on North China while the Nanking Government continues outwardly at least inarticulate on this important question. Wang Ke-min, the Acting Chairman of the Peiping Political Council, returned to Peiping on August 29th according to schedule (see G-2 Report No. 9193, item 9) and immediately upon his arrival went into conference with Mayor Yuan Liang and other key officials.

In reply to questions regarding when the postponed meeting of the Political Council would be held, Mr. Wang stated that no date had been set. At the same time news was received from Nanking that the Political Council was to be abolished. This fact Wang of course knew but would give no indication regarding the move about which rumors have been prevalent for some time. The Nanking announcement concerning the Council stated that since political conditions are less complicated in North China than when that body was established there was no longer any reason for such a special administrative organ, and also that its abolition was in accordance with the Government's policy of retrenchment.

There is some truth in the first of these reasons though not in the way Nanking means. The Peiping Political Council was established the purpose of dealing with the Sino-Japanese question following the Tangku Truce and Huang Fu was made its head because it was believed that his experience in dealing with the Japanese would be able to delay their pressure for more influence in the affairs of North China. The Japanese, however, found that rather than being a help in dealing with Sino-Japanese relations, the Council was just another line of defense upon which the Chinese were mustering their forces of negotiation and evasion. Now the Japanese have determined to deal with matters in North China either through Nanking or better directly with the local authorities. Hence their pressure for the abolition of the Peiping Political Council. So from this point of view Nanking was right when it stated that conditions in North China were less complicated now than three years ago when the Council was established.

The abolition of the Political Council means that about five hundred officials of various ranks will be seeking another place to fill their rice bowls. Some will be absorbed in other organs in the North and some will be moved to Nanking and other places. Many will have no positions at all and will have to start over again on the political ladder. The breaking up of this body is to be deplored as Huang Fu had built up a very able corps of assistants who were doing their work well under difficult circumstances. It is stated that all business of the Council has been concluded save the question of air traffic between China and Manchuria. This matter will be handled at Nanking.

The remaining special organ, the Peiping Military Council, may well be the next object of Japanese attention. This body actually does little good and was originally created as a place from which General Ho Ying-chin, the Minister of War and trusted confident of Chiang Kai-shek, could keep an eye on the doings of the Political Council and their moves in the realm of Sino-Japanese relations. Of the two bodies the Political Council was by far the more valuable for China and it was believed that the Chinese would make every effort to retain it. For a time it looked as though an amalgamation of the two might be effected and even now officials state that a "diplomatic section" may be added to the Military Council. If this could be done and the most valuable officials of the Political Council utilized, the results would be beneficial for China.

With these political changes in the making, the talk of economic reorganization and cooperation with Japan still continues. The Japanese have announced the formation of such a body but the Chinese deny that they have anything to do with it. They have formed an Economic Association in Hopei Province which is composed mainly of the Bankers' Associations and the Chambers of Commerce of Peiping and Tientsin together with a number of leading Chinese economists. The heads of this organization deny that it has any connection with the Japanese or that any member of that nationality is a member. However, it would seem that the Japanese are determined to force some form of economic cooperation upon North China but in just what manner it is yet too early to say.

As this report is being written it is learned that a Peiping Economic Investigating Party under the leadership of Mr. Wu Chen-shih, one of the Counsellors of the Peiping Municipal Administration, plans to leave for Japan the end of this month. The members of this party who have not been announced as yet are expected to stay about three weeks in Japan studying the industrial, educational and municipal conditions there. Perhaps this is the start of the plan stated by General Doihara who some weeks ago in Tientsin announced that the time had come for the Kuantung Army to turn its attention to problems of economic reconstruction and development in North China.

Coupled closely with the above facts is the rumor that there will be a new body formed in North China to take the place of the Political and Military Councils. Some sources state that it will be a branch of the National Economic Council and will be headed by Mr. Wang Ke-min. Officially the Chinese have denied this possibility but the rumors persist and in this connection it is interesting to note that Major Takahashi of the Japanese Military Attache's Office in Peiping stated to a reliable source that such a body was needed very much. This may be the solution for conditions in the North as a branch of the National Economic Council would have sufficient power to control all reconstruction matters in which the Japanese are particularly interested. Other affairs they could handle directly with local officials without any contact through the Nanking Government. Such a scheme is believed to be acceptable to the Japanese, but if and how it will be worked out remains to be seen.

For and in the absence of the Military Attache:

S. V. Constant.
S. V. Constant,
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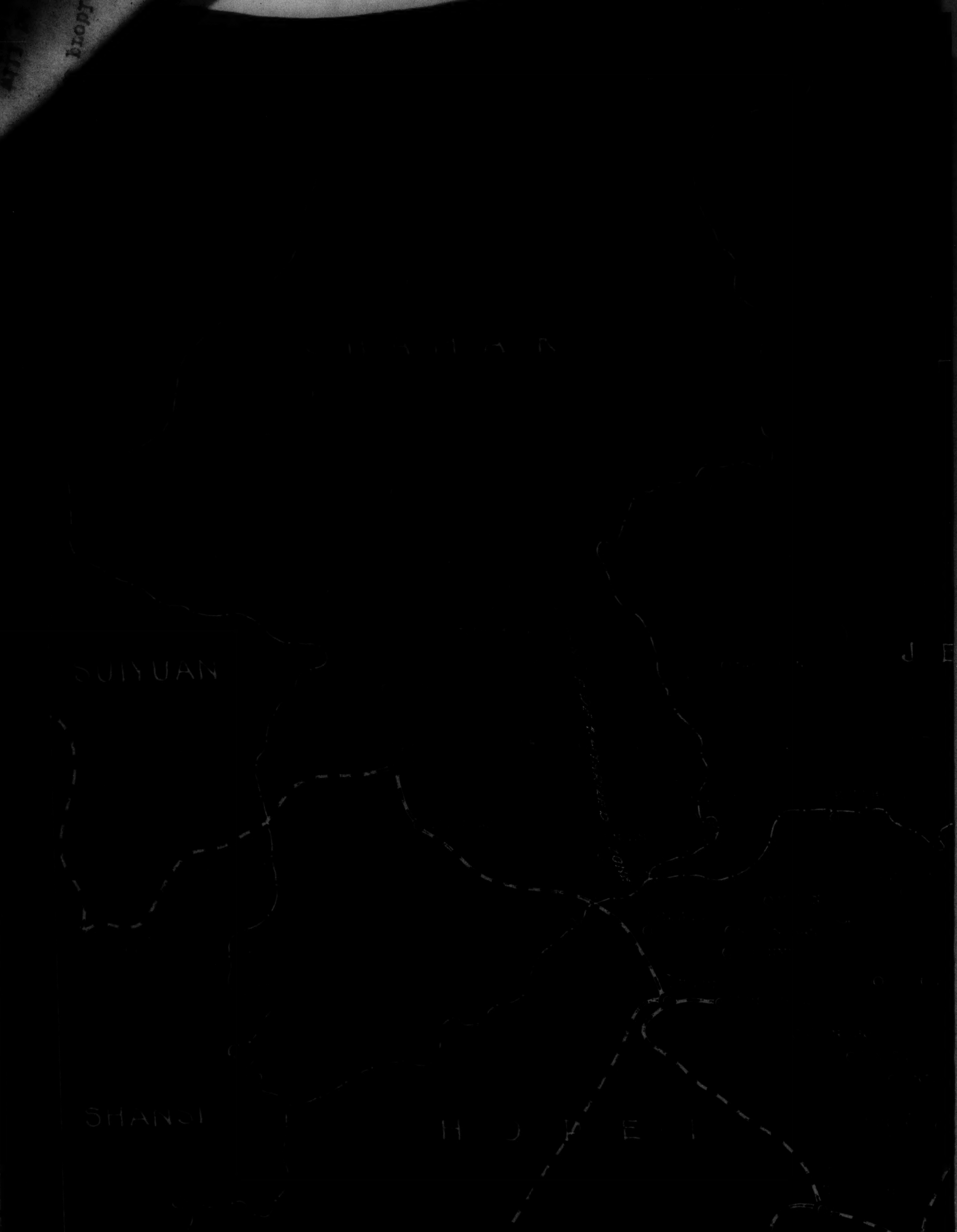
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COMMENTS ON CURRENT EVENTS

September 14—17, 1935

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1. The National Government:
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    Diplomats Present Credentials
    Communications Loan
2. British Economic Adviser
3. Japanese Currency in Manchoukuo
4. Russian Influence in Sinkiang
5. The Back Door to India
6. The Kailan Mines
7. Trouble in Inner Mongolia
8. Sino-Japanese Relations

1. The National Government:

China and the League.

On September 17th, Dr. Victor Hoo, Chinese Minister to Switzerland and permanent delegate to the League of Nations, made a lengthy speech on the subject of the failure of China to be elected to the Council. Two days later the Ministry of Foreign Affairs issued a statement regretting the action of the League. Aside from slight comment in official quarters there has been no reaction regarding the matter.

Diplomats Present Credentials.

As previously scheduled, the German and United States Legations in China were raised to Embassies on September 14th and 17th respectively with the presenting of the necessary credentials. The new Netherlands Minister presented his letters on the 19th (see G-2 Report No. 9201, item 1).

Communications Loan.

Some days ago the Central Political Council approved the plan of the Ministry of Communications for the issue of a ten million dollar silver loan for the purpose of the development of Government telephone, telegraph and radio service. The matter is now before the Legislative Yuan for discussion. The plan is to have the bonds pay six per cent interest and to have them amortized in seven and a half years.

2. British Economic Adviser.

Considerable interest is evidenced in the arrival of Sir Frederick Leith-Ross, Chief Economic Adviser to the British Government, who landed in Shanghai on September 21st. On his way to China he stopped in Japan where he saw many prominent Japanese officials.

Interviewed by the press, Sir Frederick stated that he could not give out any program of investigations until he had seen the Chinese Government officials. The Japanese look with suspicion upon this visit as they fear the possibility of foreign financial aid to the Chinese Government in which event Japanese influence in China would be retarded.

3. Japanese Currency in Manchoukuo.

The Manchoukuo Postal Administration has announced that on and after September 15th Japanese currency will be accepted in the handling of postal savings deposits. The annual interest rate will be 4.8 per cent on ordinary accounts while on fixed deposits the rate will be 5.2 per cent.

4. Russian Influence in Sinkiang.

Everyone in general and the Japanese in particular are worried over affairs in Sinkiang Province. It will be remembered that some five years ago several thousand White Russian soldiers were employed there by the Chinese officials during a civil war. In the last two years following the victory of Sheng Shih-tsai over the Mohammedans under Ma Chung-ying, Red Russians have been increasing in that province and now the peculiar condition exists where the White Russian soldiers are operating under Soviet advisers employed by Sheng Shih-tsai, Provincial Defense Commissioner. Not only are Soviet advisers present with Sheng, who controls the military forces of that area, but they are also close to Li Jung, the aged Chairman, whose power depends entirely upon Sheng's support.

It is not believed that the Sinkiang authorities favor the growing Russian influence but having invited them in they find that the Russians are now too strong to be put out. Reliable information is to the effect that agents of the G.P.U. are as far in Sinkiang as Hami in the guise of traders selling Russian goods, and there is no doubt but that their influence is considerable.

An evidence of this is the recent release of Mr. Gustave Soderbom, a Swedish citizen who has been held in Tihwa for nearly a year. Representations to the Chinese in Nanking seemed fruitless but it is understood that Soderbom's relatives in Sweden made representations to the Stockholm Foreign Office and caused that body to take up the matter with the U.S.S.R. Minister to Sweden. This method appears to have secured results and Soderbom returned to Peiping on September 24th. His experiences would make interesting reading but he prefers to keep them to himself.

There is every indication that Russian influence in Sinkiang is on the increase and it is believed that they will try to establish a barrier along the Sinkiang border much the same as they have done on the line between Inner and Outer Mongolia. The Japanese are convinced of this and are sending investigating parties to the west from Pailingmiao. As yet the Japanese have not established a "Resident Officer" at that place but the one at Kweihwa in Suiyuan is active in endeavoring to keep in touch with the situation to the west (see G-2 Report No. 9193, item 10).

5. The Back Door to India.

In connection with the increasing Russian influence in Sinkiang it is interesting to note that Sir Eric Teichman, Counsellor of the British Embassy in Peiping, is now in Kweihwa, Suiyuan, making preparations for a journey to India. The expedition will travel in two Ford trucks and will consist of Sir Eric, a well known Mongol driver by the name of Serat who accompanied the Hedin Expedition, and several Mongol and Chinese servants.

After leaving Kweihwa, Sir Eric plans to go to Pailingmiao and then turn west to Edsingol and enter Sinkiang through Hami, going by way of Turfan to Urumchi (Tihwa). From here the route is intended to pass through Karashar, Kucha and Aksu to Kashgar and then over the difficult Karakorum mountains into Mashmir (see G-2 Report No. 9140 for map of route through Sinkiang). This trip will enable Sir Eric to study Russian influence in Sinkiang and conditions along the route to the "Back Door to India".

Sir Eric Teichman entered the British Consular Service in 1907 and has seen varied duty in all parts of China besides traveling extensively in Tibet and other inaccessible areas. He is now on his way home to England where he expects to retire. One of the best known and best loved of the foreigners in China, Sir Eric will be missed by all who know him.

While this trip is a sort of farewell journey for Sir Eric there is no doubt but that the British Government is assisting in the financial expenditure involved. It is understood that the Ford trucks will be used as far as possible and then turned over to British consular authorities for disposal. Stores of gasoline have been sent ahead along the route and other preparations made by Mr. George Soderbom, who was in charge of the transportation for the Hedin Expedition.

6. The Kailan Mines.

Much interest has been evidenced lately in the rumor that the Kailan mines were to be sold to the Japanese. The Kailan project is located in Hopei Province near Tongshan on the Peiping-Liaoning Railway. It was originally organized as a Chinese company but in 1900 the rights were sold to a British firm. Since that time the Kailan Mining Administration has grown so that the company owns or charters a fleet of ships, large storage facilities at Chinwangtao and docks at that port and other places in China. It controls nearly one quarter of the entire coal output of Hopei Province.

With the increasing Japanese influence in North China there have been rumors that they were desirous of controlling the Kailan mines and it is known that Japanese inspection parties have been over the property. The British influence in the Peiping-Liaoning Railway has always made the transportation problem of the Kailan people a comparatively easy one and their private telephone lines are located along the railway. Now the handwriting on the wall would seem to indicate that Japanese influence will be manifest in the railway as well as in other affairs in the North and the path of the Kailan Mining Administration may well be a rough one.

The Japanese are in a position to cause strikes in the mines, delay shipment of coal and even hold it up entirely, since Tongshan now has a considerable "railway guard" and Chinwangtao can easily be occupied on one pretext or another. The entire installation is in the Demilitarized Zone and at the mercy of the Kuantung Army.

It is not known whether the Japanese wish to buy or the K.M.A. to sell but the transaction would seem a natural one from the point of view of both parties. The rumors of the sale have appeared in the Japanese press and also in other periodicals and may easily have been put there by the Japanese themselves. Since Manchuria is closed to Kailan coal it is known that sales have dropped. At any rate the rumors of the sale of the Kailan properties have been current enough to warrant the head office of that company issuing a statement on September 19th to the effect that the K.M.A. is not considering the sale of its franchises to the South Manchuria Railway.

7. Trouble in Inner Mongolia.

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Despite press reports to the contrary the trouble in western Inner Mongolia has not been settled by the delegates of the National Government. These were sent following trouble between Dorlchi, the Banner Chief of the West Oriat Banner of the Olanchab League, and the Mongolian Political Council. Dorlchi or Prince Shih (Shih Wang) as he is called in Chinese, was involved in a dispute with Yun Wang, the ruling Prince of Inner Mongolia and head of the Mongolian Political Council.

The dispute arose due to the fact that the proper share of the tax on opium passing through West Oriat was not being remitted to the Mongolian Political Council. Dorlchi was suspected of intrigue with the Chinese tax officials of Suiyuan Province and of enriching himself at the expense of the Council. Sufficient proof having been obtained, Yun Wang secured the dismissal of Dorlchi by the Mongol Council. Dorlchi appealed to Nanking who sent representatives to try and settle the controversy (see G-2 Report No. 9201, item 6). The Nanking officials only complicated the matter as the Mongols resented interference with what they considered their own business in arranging one of the very questions for which the Mongolian Political Council had been established.

Dorlchi of course has the support of General Fu Tso-yi, the Suiyuan Chairman, who sent troops to help him against the Political Council. It is evident that Fu should not have made this move though legally he is in the right in "trying to preserve order" in that part of Inner Mongolia which appears on the map as Suiyuan Province. Of course the real reason for the despatch of Suiyuan soldiers is because Fu has always been opposed to the establishment and activities of the Mongolian

Political Council and the demands of the Mongols for a share in the enormous opium tax which is collected on the drug passing into Kweihwa by camel caravan from Kansu and Ninghsia.

This opium tax has been a bone of contention for some time and was settled provisionally last May when it was agreed that part of the tax would be remitted to the Mongols (see G-2 Report No. 9126, item 7). The Mongols also claimed the right to have opium transported through Inner Mongolia to Chahar and in this they were supported by the Chahar authorities who were indirectly interested through their connection with business firms. In the past few months seven motor trucks of opium have come into Chahar and the commercial firms in Kalgan have been prompt in paying the tax share to the Mongols. The trucks are now on their way westward again and the financial condition of the Mongol officials is considerably better.

This arrangement with Chahar has raised the morale of the Mongol authorities and has tended to make them more bitter against the Suiyuan officials than ever. Prince Te, the most active of the Inner Mongolian rulers and Secretary of the Pailingmiao Council, feels that the question of the dismissal of the Dorlchi of West Oriat Banner is a test of the actual power and efficacy of their Political Council. He believes that unless the Mongols are allowed to decide such matters for themselves the Council is but an empty name and of no practical use. In this he is supported by the other Princes and they are determined to force out the recalcitrant Banner Chief.

About six hundred Mongol cavalrymen have been sent to the borders of West Oriat and some shots have been exchanged between them and Dorlchi's men. Nothing serious has yet developed but apparently both sides are determined to stand their ground.

8. Sino-Japanese Relations.

(a) Economic Developments.

No further information is available regarding the formation of a body in North China to coordinate the economic cooperation between China and Japan (see G-2 Report No. 9201, item 8). However, an Economic Investigating Committee headed by one of the counsellors of the Peiping Municipality has left for Japan and the Japanese press continues to publish stories of the great benefits soon to accrue to China from Japanese commercial interests.

The first concrete evidence in the direction above mentioned was the signing of an agreement between Mr. Yin Tung, the Superintendent of the Pei-Ning Railway, and Mr. Usami, Director of the South Manchuria Railway Company, for construction of over a million yen worth of railway equipment. What arrangements have been made to pay for this order are unknown.

(b) Japanese Military Policy in China.

Not only have the Japanese business men been busy in the last two weeks but the military have again given evidences of action. In the past it has always been the Kuantung Army wolf that has been battering at the straw doors of China. The Japanese forces in North China with their headquarters in Tientsin have so far been practically inarticulate in the matter of Sino-Japanese relations.

It was therefore something of a surprise when on September 24th General H. Tada, the recently appointed Commander of the I.J.A. in North China gave out a very blunt interview to Japanese press representatives in which he stated what he believed to be the policy of the Japanese Army in China. This interview was printed in the Japanese newspapers but Japanese officials announced that the statement had not been intended for publication. The whole incident has several unusual angles. In the first place the newspaper men were flown from Peiping to Tientsin by military airplane and on their arrival entertained at lunch by General Tada. He apparently gave out a written statement which was published in Tientsin Japanese papers. This is so unusual that the text, obtained by the United Press from a Japanese newspaper man is given in full:

> "Bluntly attacking Marshal Chiang Kai-shek and the personnel of the present National Government in Nanking as 'the common enemy of the 400 million Chinese people' and declaring the eradication of this evil as the mission of the Japanese Empire, Major General Hayao Tada, Commander of the Imperial Japanese Army in China, to-day outlined the policy of the Japanese military forces in China.
>
> "General Tada's startling statements were contained in a written interview handed out to the assembled Japanese newspapermen of North China in Tientsin at the conclusion of a luncheon given them to-day. The Peiping correspondents were flown to Tientsin by Japanese military airplane to receive the statement.
>
> "The guiding principles of the attitude of the Japanese military toward China, the statement opened, are based on Japan's great mission of maintaining eternal peace in the Orient and of emancipating and protecting all Oriental nations from the oppression of the white races of the world.
>
> "Before venturing to treat China for her present maladies, he stated, we must first know the causes of the disease. The Chinese people to-day are a pitiable cringing sacrifice to the relentless demands of hungry militarists and of Marshal Chiang Kai-shek, his Kuomintang group and his own capitalistic group.
>
> "This distress of the Chinese populace is to be attributed directly to the political failure of Marshal Chiang and the Nanking Government. Their policy has been one of extortion from the people and internal destruction. Toward foreign powers, they have endeavored to play off one nation against the other to the eventual detriment of all.

"The perfidiousness and immorality of the Chinese government is illustrated by the fact that it has apparently forgotten all Japan's past benefactions toward China, benefactions which have saved China from dismemberment by foreign powers and ignominious colonial rule by foreign nations. To make matters worse China regards Japan as an enemy, ignoring Japanese rights and interests in the country. Furthermore China has persisted in attempting to intrigue with foreign nations to effect the destruction of Japan, taking advantage of Japan's present extremely critical situation.

"This being the present situation, General Tada's statement goes on to outline the policy of the Japanese Army in China in an eight point program:

'1. Japan's attitude towards China must always be fair and impartial.

'2. Japan's policy must be implemented and supported by means of strong pressure continually exerted upon China.

'3. With regard to trade and commerce, Japan must institute a "giving policy", not one of mere exploitation-- commodities must be exchanged freely on a mutually profitable basis.

'4. Japan must respect the independence of China and the maintenance of independence of the Chinese people.

'5. Japanese authorities must not trust too implicitly in personalities, as they can easily be led astray. Policies must be judged by actual results only.

'6. All military groups, new and old, in North China, as well as officials, who extort money unjustly from the people must be eliminated.

'7. Japan must work for the elimination of "professional pro-Japanese politicians" in China ("Ronins").

'8. Mistaken ideas of "superiority" both on the Chinese and on the Japanese side must be corrected.'

"General Tada added that as long as Marshal Chiang Kai-shek and his clique remained in power, no Japanese policy in China can be successful. Even if Japan maintains a fair and impartial attitude, the Chinese people will not reciprocate with a truly pro-Japanese feeling if Chiang Kai-shek remains. Therefore the Japanese people must guard themselves against being deluded by a pretended attitude and false gestures on the part of Chinese officials. 'We must stand pat on our own independently conceived policy'.

"The best way to work out this policy will be for Japan to establish firmly a 'peaceful land' where she will be free to act, and then to extend this area through example and precept forcing the Chinese peoplt to change their present attitude in a better direction by demonstrating how successful and peaceful such an area can be made.

"It is well known, the statement goes on, that North China at present is in a position to enable us to realize such a plan more easily and quickly than any other section of China. 'I think it is necessary that we do realize this policy in North China'.

"General Tada emphasized that if North China could be made a region in which Chinese and Japanese people can live together peacefully, and could be made the mart where products and materials of both countries could be freely exchanged without any anxiety or worry, 'then peace can be established in the Orient, through the co-operation of the three great Oriental nations, Japan, China and Manchoukuo'".

The next day great pains were taken by the Japanese to look at the matter lightly. Officials said that the "written interview" was only a "reference pamphlet" given to the press and that the "statement was not intended for publication"! Rengo, one of the Japanese news agencies, gives a summary of the document in question which is quite different in tone from the articles carried in the Japanese press of the previous day.

It is believed that the interview was given out by General Tada for the purpose of orienting the Japanese correspondents upon the policy of the new Japanese Commander and that through some slip it was published in the Japanese press. Some opinions have been advanced that this was done on purpose to offset the visit of Sir Frederick Leith-Ross, and to warn the Chinese Government to have nothing to do with him.

Whatever may be the real reason, this office believes that the statement of General Tada gives a true picture of what is in the Japanese minds regarding China and that his outline of the policy for the Japanese Army may be taken as authentic. It would seem to forecast a more united front on the part of the Japanese than has been hitherto evidenced. It is interesting to note in this connection that the "Resident Officer" now stationed in Suiyuan was formerly a member of the Tientsin Garrison and not a Staff Officer from Tokyo.

In the past it has been the Kuantung Army that has been taking the offensive against the Chinese. The vain hope in China that the recent shake up in Japanese Army administration might forecast a more friendly policy toward the Chinese would appear to be groundless. While of course it is difficult to observe the intentions of Tokyo from this distance it would seem from the actions of her military personnel in China that a stronger and more united front will be presented in this area.

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Office of the Military Attache, American Embassy, Peiping, China, September 27, 1935 - To: Chief, Military Intelligence Division, Washington, D. C.

Approved.

Joseph W. Stilwell

Joseph W. Stilwell
Colonel Infantry
Military Attache

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COMMENTS ON CURRENT EVENTS

September 28—October 11, 1935

RECEIVED G/2 W. D. NOV 5 1935

1. The National Government:
    - Minister to Austria
    - German Ambassador
    - Double Tenth Anniversary
2. Japanese Traffic Conference
3. Inner Mongolian Dispute
4. China-Manchoukuo Telegraph
5. Flood Situation
6. Colonization in Manchuria
7. Sino-Japanese Relations

1. The National Government:

Minister to Austria.

On October 1st the Executive Yuan confirmed the appointment of Mr. Liu Chung-chieh as Minister to Austria. Mr. Liu has been Minister to Germany for the last two years. He is a graduate of Waseda University, Japan, and very close to General Huang Fu (see G-2 Report No. 9185, item 1). His appointment to another post indicates that his supporters, not the least of whom is Huang Fu, still have influence in the Government. Information is not available as to whether or not he will return to China from Berlin before going to Austria. Mr. Liu is a very capable man and speaks fluent German.

German Ambassador.

On October 3rd the German Ambassador, Dr. Oscar Trautmann, gave an address before the Foreign Relations Committee of the Legislative Yuan. He spoke on the political conditions within Germany and the foreign policy of his Government. Following the meeting Dr. Trautmann was entertained at luncheon by Mr. Sun Fo, President of the Legislative Yuan.

The policy of having foreign envoys speak before the members of the Legislative Yuan was started some months ago with addresses by M. Bogomoloff, the Soviet Ambassador, and Signor Vincenzo, the Italian Ambassador.

Double Tenth Anniversary.

The Double Tenth Festival, so called because it comes on the tenth day of the tenth month, passed with very little celebration. The day commemorates the events in Wuchang in 1911 which resulted in the overthrow of the Manchu Dynasty and the establishment of the Republic.

The day was observed as a holiday all over the country and in Nanking and some of the other large cities the officials met for simple commemorative exercises.

2. Japanese Traffic Conference.

The eleventh joint traffic conference between representatives of Japan, Korea, Formosa and Manchoukuo opened in Mukden on October 3rd. Matters discussed at the meetings included the proposed inauguration of through passenger and baggage traffic in general and the new problems arising due to increased traffic between Manchoukuo and Korea as well as Manchoukuo and Japan.

On October 5th many of the delegates left for an inspection trip to Harbin and also over the former Chinese railway lines which have recently been incorporated into the Manchoukuo State Railways under the management of the South Manchuria Railway experts. Following this the delegates plan to visit Jehol and then return to Mukden where the conference is expected to close on October 15th.

3. Inner Mongolian Dispute.

On October 4th, Pao Yueh-ching, the special representative of Prince Te, opened the Peiping branch office of the Mongolian Political Council. Representatives of the various military and political organizations of Peiping were present to offer congratulations. This office has a short wave radio outfit with which communication is available to Te Wang's Palace and Pailingmiao. With the establishment of this branch office in Peiping the Mongols hope to keep in touch with the important Chinese officials in Peiping and Nanking without interference from Fu Tso-yi and the other Suiyuan authorities who are not in sympathy with Mongol aspirations.

The Mongol officials at Pailingmiao are preparing to open a general meeting of the Mongolian Political Council early this month. After the opening of the meeting it will be necessary to await the arrival of sufficient delegates to form a quorum so that only preliminary steps may be expected in the near future.

The dispute between the Council and Dorlchi, the Banner Chief of the West Oriat Banner of the Olanchab League, remains unsettled with the possibility of armed clashes still present (see G-2 Report No. 9209, item 7). The support given Dorlchi by the Suiyuan authorities makes the matter more serious than it would be otherwise and both the Council and Dorlchi seem determined to stand their ground.

The efforts of the Nanking Government to mediate in the question have not met with success so far. The most recent attempt is the appointment of Ho Ching-wu, younger brother of General Ho Ying-chin, as an additional mediator. Young Ho was formerly an official in the Railway Administration and has represented his brother on a previous mission to Mongolia. He is at present a member of the Peiping Branch Military Council.

According to Mongol officials Ho will leave Nanking in a few days for the north to meet the delegates at Pailingmiao. The Mongols, while resenting the interference of the Nanking Government in what they consider their own business, are willing to see what Ho can do with the Suiyuan authorities.

General Fu Tso-yi, the Suiyuan Chairman, has long been opposed to Mongol autonomy and uses every opportunity to clip the wings of the Pailingmiao Council. In this case his support of the Dorlchi is only another evidence of his policy, as it is the intrigues of the Banner Chief with Fu's officials which have been the cause of this dispute between Dorlchi and Yun Wang, the head of the Mongolian Political Council.

4. China-Manchoukuo Telegraph.

After several months of negotiations regarding telegraph communications between China and Manchoukuo it was announced on October 8th that the new regulations would be in effect from November 1st. It was significant that the announcement was made by the Headquarters of the Kuantung Army in Hsinking and not by the Chinese authorities.

These negotiations have been in progress for some time, the delay being due to the reluctance of China to accept telegrams in Japanese. The new regulations provide that messages in Japanese "kana" will be received in Chinese telegraph offices. Five characters will be counted as one word and the rate for each word will be twelve cents for ordinary telegrams and twelve cents for those in code.

The discussions were attended by the following persons:

Japanese:
- Colonel Yoshiharu Takeshita, newly appointed chief of the Special Service Department of the Kuantung Army at Shanhaikwan.
- Mr. Yasuaki Fujiwara - Director of the Manchoukuo Postal Affairs Bureau.
- Mr. Naozo Maeda, Business Manager of the Manchuria Telephone and Telegraph Company.

Chinese:
- Mr. Wang Jo-hsi, Director of the Chinese Telegraph Administration in Tientsin.

At the present time telegrams in the Japanese "kana" or syllabic form of writing sounds will be accepted in Peiping and Tientsin for the Kuantung Leased Territory, South Manchuria Railway Zone, Harbin, Kirin and Tsitsihar. As conditions warrant it may be expected that all the Chinese telegraph offices where English is understood will be required to accept such telegrams.

In this connection it may be of interest to note that the Chinese send their characters by the use of numbers, each common character having a corresponding Arabic numeral. While many of the telegraph offices have men who can read the English alphabet, there are still a considerable number of places where the messages are sent by choosing the Chinese characters and the operator sending the proper numerals which are then decoded into the character upon receipt.

5. Flood Situation.

The flood situation continues to be serious in northern Kiangsu. In the Haichow area the water is still high and more ground than ever is inundated due to another break in the north bank of a tributary of the Liutang River southeast of Hsuchow. So far no serious damage has been done to railway embankments and the Tientsin-Pukow and Lunghai Railways are both operating.

6. Colonization in Manchuria.

The Japanese are not natural colonizers and despite the hopes of Japanese officials it has been necessary for the Japanese Ministry of Overseas Affairs to devise plans for increasing emigration to Manchuria. In this scheme they have been working in cooperation with the Manchoukuo Bureau of Railways (see G-2 Report No. 9165, item 6).

Preparations are now being made for the organization of a colonization company, the shares in which will be mostly owned by the Manchoukuo Government and the East Asiatic Development Company. Some shares are to be offered for private subscription but it is understood that the subscriptions of the two largest shareholders will be in the form of land. The Department of Overseas Affairs will guarantee a six per cent dividend for from ten to fifteen years.

Some 2,500,000 acres of farm land in Manchuria has been prepared for transfer to the new company. About two-thirds of the total will be leased to immigrants in units of 20 chobu (about 49 acres) per household.

By this means the Japanese Government hopes to help the crowded population situation in the large cities of Japan as well as to settle more Japanese in Manchoukuo and better their hold upon that area. Special effort will be made to secure ex-soldiers and preference will be given them under the new plan. The placing of these men near the railway lines will help protect the Japanese lines of communication in event of war in Manchuria.

7. Sino-Japanese Relations.

Surprising as it may seem there was practically no reaction to the startling statements given out by General Tada in Tientsin as to the policy of the Japanese Army in North China (see G-2 Report No. 9209, item 8). Chinese newspapers have not taken the matter up and officials have ignored it. Thus the most outspoken statement of what the Japanese will attempt in China which has been made by any Japanese for many a day has been allowed to go down in history without outward protest by the Chinese.

The Japanese press in China and Manchuria seemed much gratified by General Tada's interview as can be seen from an example published in the "Manchurian Daily News", Dairen:

> "The Tokyo War Office fully approves the statement of Major-General Hayao Tada, Commander of the Japanese Garrison in North China, issued in Tientsin on Tuesday, in which he warned the Chinese against the danger of a second North China incident arising if the sinister activities of Nanking agents against Japan were continued, and in which the General stressed the need for the establishment in that part of China of a new political organ free from control of the Nanking Government, according to a special dispatch to the Manshu Nichinichi."

Press despatches from Tokyo state that at a recent meeting of the Cabinet a new China policy was announced which was to be communicated to the Japanese officials in Manchoukuo and North China in the near future, special delegates being sent from Japan for this purpose. This policy was drafted jointly by the Foreign, War, Navy and Finance Offices and was considered by Premier Okada, Foreign Minister Hirota, War Minister Kawashima, Navy Minister Osumi and Finance Minister Takahashi.

From recent events it appears that the Japanese are determined to consider North China as a "special district" and will attempt to secure its separation from the control of the Nanking Government. Again one hears from Japanese sources statements to the effect that the people of North China are anxious to set up an independent regime and that Japan should encourage this in the interest of China! It is known definitely that the Japanese have had this scheme in mind for some time but have as yet not put it into effect. In the past the Chinese have been able to escape from this independence movement but this time there is no question that it will be the most difficult obstacle that has been yet presented to the Chinese in their effort to forestall Japanese penetration.

The Japanese plans for tightening their economic reins on China are also progressing. The Economic Investigation Mission sailed from Shanghai on October 6th and will likely be gone for a month. This Mission contained many important persons and a glance at its composition indicates that the Chinese have been forced to consider economic cooperation with Japan much more seriously than ever before. The important members are as follows:

Mr. Wu Ting-chang......	Manager of the Salt Bank
Mr. Sung Han-chang.....	Manager of the Bank of China
Mr. Huang Wen-chih.....	Representative of the Hankow Chamber of Commerce
Mr. Chen Kwang-pu......	Chairman of the Shanghai Bankers' Association
Mr. Chow Min-chu.......	Manager of the Kwangtung Fukuo Coal Mining Company
Mr. Chow Tso-min.......	Chairman of the Peiping Bankers' Association
Mr. Chien Yung-ming....	Manager of the Chung Hsin Coal Mining Company
Mr. Yu Tso-ting........	Chairman of the Shanghai Chamber of Commerce

Mr. Liu Hung-sheng.......	Manager of the China Merchant Steamship Navigation Company.
Mr. Chung Ao.............	Chairman of the Tientsin Bankers' Association
Mr. Hsu Hsin-liu.........	Manager of the Chekiang Industrial Bank
Mr. Tang Shou-min........	Manager of the Bank of Communications
Mr. Hu Yung-shu..........	Member of the Executive Committee of the China Cotton Company Ltd.
Mr. Huang Kiang-chuan....	Supervisor of the Chienyuan Company
Mr. Nen Kwei-ao..........	Manager of the Hupeh Provincial Bank
Mr. Chu Shu-kang.........	Manager of the Wuchang Yu Hwa Cotton Mills

From the standpoint of the Chinese the situation looks very gloomy. For the time being the will to oppose Japan seems lacking. Even the policy of passive resistance appears to have been temporarily laid aside and the Japanese impose their wishes with increasing arrogance. Strange to say the Kuomintang continues inarticulate and it can only be surmised that the powers that be in Nanking have been forced to bend for the present to the will of Japan. A few of the most significant facts are listed below which show the way the wind blows:

1. No official Chinese protest has been made to the startling statements made by General Tada regarding Japanese Army policy in China.
2. Chinese officials known to have been outspoken in their opposition to Japan have been moved from North China.
3. Kuomintang offices in Chahar, Suiyuan, Shansi and Hopei have been closed and the activities of this organization in the North rendered practically useless.
4. Chiang Kai-shek gives out interviews about reconstruction but continues to consolidate himself in Szechwan. Rumors continue that the capital will be moved there from Nanking.
5. Italian aviation personnel formerly at Nanchang are moving to Szechwan.
6. Economic missions composed of key men known to be opposed to cooperation with Japanese business interests in China have gone to Japan to investigate conditions.

The list given above contains only a few of the most striking evidences that the Japanese control in China has reached a point which has never been achieved before. Whether the Chinese will continue to accept this or whether some spark will ignite the smouldering resentment and awake active opposition remains to be seen. For the moment it looks as though the Rising Sun of Nippon had blinded the Chinese Dragon.

For and in the absence of the Military Attache:

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COMMENTS ON CURRENT EVENTS

October 12—25, 1935

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1. The National Government:
    - The Generalissimo Returns to Nanking
    - C.E.C. and National Congress
2. Sino-Japanese Relations
3. Corporation for Development of N. China
4. Sino-French Dispute
5. Inner Mongolian Affairs
6. Manchoukuo-Soviet Border Incident
7. Manchouli Parleys
8. National Athletic Meet
9. American Secretary of War
10. China Receives League Notification

1. The National Government:

The Generalissimo Returns to Nanking.

Chiang Kai-shek, President of the Military Affairs Commission, arrived at Nanking from Taiyuan on the afternoon of October 14th by airplane. General Chiang in the course of the past week has visited Sian, Loyang, Kaifeng, Chengchow and Taiyuan for conferences with various officials.

His presence in Nanking has drawn many important government officials to the capital. Among those who have arrived from Shanghai are Wang Ching-wei, President of the Executive Yuan; H. H. Kung, Minister of Finance; Sun Fo, President of the Legislative Yuan; Tan Chen, Vice-President of the Judicial Yuan, and Yang Teng-chao, representative of General Chen Chi-tang, warlord of Canton.

Conferences in Nanking with the Generalissimo as the central figure are believed to be centered, among other problems of importance, around the much talked of new Japanese policy recently brought to Shanghai by Goro Morishima, section chief from the Tokyo Foreign Office Bureau of Oriental Affairs. Chiang left Nanking for Fenghwa, his native place, on October 21, but will return to the capital in a few days.

C.E.C. and National Congress.

It is reported from Nanking that the 6th Plenary Session of the Central Executive Committee will meet on November 1st and the 5th National Kuomintang Congress on the 12th without further postponement. With many rumors abroad concerning Japan's new policy in China, deep interest is being raised in these forthcoming meetings and in the preliminary conferences which General Chiang is now holding with high members of the government. Details of these meetings are being guarded with strict secrecy.

It had been intended that the Kuomintang Congress would confine its discussions primarily to plans of national reconstruction and the adoption of a permanent constitution for the termination of the Kuomintang's Period of Tutelage in China. However, on September 16th, Kwangtung, always handy with the proverbial monkey wrench, came forth with four radical proposals to be included in the agenda. These proposals are about the same as those that were refused by the Central Executive Committee last year and resulted in the postponement of the 1934 Congress. They are as follows:

(a) Radical political reform and punishment of officials who have betrayed the country.
(b) Punishment of leaders who have inflicted injury upon the party, the nation or society.
(c) Formulation of definite foreign policies and concrete schemes of national defense (this to include a plan to regain the lost provinces).
(d) Formulation of a minimum program of production; elimination of certain customs tariffs; a financial readjustment; granting of relief to farming villages.

These proposals amount to a condemnation of Chiang's present policies and forecast difficulty for the coming assembly of Congress. A circular has been issued by Hsiao Fu-cheng, just returned from Siam, and other Southwest leaders, convening a separate Kuomintang meeting in Canton simultaneous with the C.E.C. meeting in Nanking and the American Consul-General in Canton has been confidentially informed by an authoritative source that there is a strong possibility of a separatist movement by the Southwest in November unless Chiang Kai-shek again postpones the National Congress or compromises acceptably. It is important to note however that most of this anti-Nanking activity is the work of a few radical leaders and a great deal must depend upon Chen Chi-tang who remains the controlling figure at Canton and appears to be retaining a conservative attitude.

The agenda of the National Congress will have to be settled after the plenary session of the C.E.C., and the atmosphere prevailing at that time will no doubt determine the fate of the Congress. It is likely that unless important concessions are made to the Southwest there will be strong opposition to whatever program Chiang and his followers wish to put through and the Congress will again be postponed.

As to the liquidation of the period of political tutelage and adoption of constitutional government, with domestic conflicts still bitter and no agreement among the several leaders regarding the proper approach to pressing problems of the day, and with Japanese pressure evidently acting to drive Chinese leadership into still further division, the chances of effecting such a transfer of political control appear as remote as they were a year ago even if the 5th National Kuomintang Congress is able to meet.

2. Sino-Japanese Relations.

Considerable apprehension now exists regarding the possible developments from Japan's so-called new policy toward China. There is really no new policy but a definite stage of Japan's unchanging policy is now being opened and the plans for this are being stated more clearly than ever before. In brief, the policy as approved in Tokyo by the Ministries of War, Navy, Foreign Affairs and Finance is as follows: North China is to be converted into an area of Sino-Japanese cooperation. In accomplishing this Japan will deal with the Nanking Government and will request the latter to uproot all existing causes of trouble. If Nanking does not do this and does not change its alleged dual diplomacy toward Japan the Kuantung Army will insist upon divorcing North China from the Central Government.

The seriousness with which this policy is to be carried out is evidenced by the pains which are being taken to coordinate the activities of all Japanese agencies in China and thoroughly to acquaint them with details of the plan. At Dairen a conference was held on October 13th and 14th of staff officers of the Kuantung Army and the Japanese garrison in North China and the new policy was explained by Major-General Okamura of the Imperial General Staff at Tokyo. General Okamura then proceeded to Shanghai and a conference of Military and Naval Attaches was held on the 20th.

That there is this time general agreement between the various Ministries is indicated by the fact that the Tokyo Foreign Office also sent a representative, Mr. Morishima, to Shanghai to present the policy to the Japanese Ambassador and various consular officials. Conferences of such officials are being held in Tientsin, Hankow and other sections of the country.

The two great subjects of speculation are now -

1. What is to be the Nanking reaction to this clearly stated policy?
2. Does Japan contemplate the forcible separation of North China from the Central Government?

As to the first question, two entirely opposite beliefs exist in Chinese quarters, - one is that the Japanese program has already been completely accepted by Chiang Kai-shek, hence the decision by Japan to deal with Nanking; the other is that no more concessions are to be made and Chiang is preparing for armed resistance. It is not necessary to guess, because the answer will soon be known. It is very difficult to put a Chinese in a position where he must commit himself but this seems to be one of those times.

As to the second question, it is believed that the occupation and separation of North China is intended by Japan to be used merely as a threat but it is by no means a bluff. The project in North China differs from that in Manchuria in that the latter involved strategic aspects, while this development of North China must be a paying proposition to be successful. It is therefore likely that the minimum necessary force will be used so long as cooperation in the economic field progresses and Japanese power in North China continues to expand. However, a strange situation exists when one country is directing cooperation by another country within the latter's own territory and incidents can always be started by people who hope to benefit by the establishment of a separate state in the North.

It is therefore believed by many observers that the divorcement of North China from Nanking is only temporarily postponed.

3. Corporation for Development of North China.

According to reports from Japanese quarters, a vast investment corporation is being organized which will play a major part in the exploitation of natural resources in North China. The project has already been approved by the Japanese Government but is held up temporarily due to the sudden change of presidents of the South Manchuria Railway, which is to be the holding company of the investment corporation. The structure of the corporation as approved is to be along the following lines:

a) The name of the corporation shall be the Hsin Chung Company. The main office will be in Tokyo with branches in Shanghai, Dairen, Tientsin and other important centers.

b) The business of the corporation shall include the direct management of joint enterprises by Japan, China and Manchoukuo, investments therein, and business transactions among the three countries.

c) The initial capitalization of the corporation shall be ten million yen, one fourth of which is to be paid up by the S.M.R. With the progress of enterprises in North China in which the corporation is interested, its capital shall be increased to between thirty and fifty million yen in the future.

d) The corporation shall have a directorate of seven, term of office three years, and two auditors, term of office two years. The Directors shall elect from themselves one Chairman and one Managing Director.

It is likely that Mr. Sogo, former President of the S.M.R. and recognized expert on Manchuria and China, will be Chairman of the Corporation.

In the development of North China resources, special attention is to be paid to the coal deposits in Shansi, cotton production in Shantung and Hopei, and gold and other ores near the border of Hopei and Jehol.

Such a program seems toindicate that, initially at least, the policy of this concern will be to get some immediate returns for Japanese investments. How much genuine economic development of the area is to take place is yet to be seen.

4. Sino-French Dispute.

Representations were recently made by the Chinese Government to the French Embassy, based on a report that the French were occupying a portion of Wuchwan district adjacent to the Kwangchowan leased territory in Kwangtung. The allegation was denied, but an investigation disclosed that the French authorities in Kwangchowan had engaged in some road construction in adjacent Chinese territory. Dr. Kan Chieh-hou, special delegate of the Ministry of Foreign Affairs in Kwangtung and Kwangsi, now reports that, through negotiations with the French Consul-General at Canton, the construction has ceased and the incident amicably settled. (The attached sketch shows the location of the Kwangchowan leased territory.)

5. Inner Mongolian Affairs.

The dispute in Inner Mongolia between Dorlchi, the Banner Chief of the West Oriat Banner of the Olanchab League, and the Mongolian Political Council still drags on unsettled (see G-2 Report No. 9220, item 3). The reported appointment of Ho Ching-wu, the brother of the Minister of War, as a special delegate to adjust the matter has had no result as Ho remains in Nanking.

Another attempt of Nanking to assist in the settlement has been the sending of Mr. Wu Ho-lin, a member of the Mongolian and Tibetan Affairs Commission in Nanking, to Suiyuan. Wu is concurrently an adviser to the Mongolian Political Council and he is now conferring with General Fu Tso-yi, the Chairman of Suiyuan. Chinese sources report that considerable progress has been made in the matter but Mongol contacts are not so optimistic.

Pao Yueh-ching, the special Peiping representative of Prince Te, has left for Pailingmiao. Sufficient members of the Council to form a quorum have not arrived as yet and so no meeting has been held.

6. Manchoukuo-Soviet Border Incident.

Wide-spread publicity is being given to a recent clash between a Russian border patrol of about fifty men, equipped with rifles and machine guns, and a Japanese-Manchoukuo patrol of about the same composition along the border near Khabarovsk on October 12th.

The seriousness of this clash as compared to others of similar nature lies in the fact that both sides admit several casualties which tends to excite public sentiment. As usual both sides have protested, each claiming border violation by the other. The recent attitude of Japan and Russia clearly indicates that neither side has any tendency to start hostilities over any of these border bickerings. Nevertheless, officials in Moscow express the fear that if serious clashes of this nature continue, the Kuantung Army may some day take the situation into its hands, ignoring the Tokyo government, and frontier warfare on a large scale will result. The Japanese Embassy in Moscow minimizes the danger of such an outbreak.

7. Manchouli Parleys.

Negotiations at Manchouli between Outer Mongolia and Manchoukuo concerning the creation of a mixed commission for the settlement of frontier conflicts and the exchange of authorized representatives on the frontier, are making little progress.

A deadlock has now been reached over the number of representatives to be appointed. The Mongols propose only one from each side, the Mongolian representative to reside permanently in Manchouli and the Manchoukuo one at Tamsyksume. Manchoukuo objects to this and urges the appointment of three from each side, which proposal has been rejected by the Mongols. The Manchus insist on their proposal and in order to exert pressure on the Mongols refused to attend a session of the conference on October 9th, which according to the Mongols places the discussions under a threat of rupture. The leader of the Manchoukuo delegation, a Japanese Mr. Kanki, is reported to be displaying a challenging attitude and attempting to exert pressure by statements regarding the possibility of new serious frontier conflicts. The Mongols, however, remain firm and are overlooking all threats.

It is interesting that in this case Manchoukuo is not so quick to take "decisive measures" or demand demilitarization of areas. It seems that they are now dealing with some one who also has a big brother in the background.

8. National Athletic Meet.

The Sixth National Athletic Meet held in Shanghai from October 10th to 21st, inclusive, has been monopolizing the space in the vernacular press. Events started with a message from General Chiang Kai-shek which was read to the assembled athletes by General Chu Pei-te, Vice-Chief of Staff. The message asserted that improvement in the physique of the youth of China was necessary for the welfare of the nation and enjoined the participants to promote amateur athletics among the people of their home towns.

Several new records for China were established and the increase in number of women athletes was very evident. Provincial teams were present and many persons formerly from the Chinese provinces under Japanese occupation took part.

Just why Shanghai was selected for the meet is not clear unless the financial side of the problem was the controlling reason. The new athletic fields and stadium at Nanking would have been an ideal place for the events and much nationalist propaganda could have been given to the participants. It was an opportunity that should not have been missed as Shanghai has not the possibilities that Nanking has for showing the youth from the various provinces what has been accomplished by the Nanking Government.

9. American Secretary of War.

Mr. George Dern, U. S. Secretary of War, arrived in Shanghai October 21st on board the USS "Chester". On the 22nd he reviewed the U. S. 4th Marines, delivered an address to the Pan-Pacific Association and, after attending various receptions, left for Nanking that evening.

At Nanking Mr. Dern and his party were entertained by high officials including Mr. Wang Ching-wei, Chairman of the Executive Yuan, General Ho Ying-chin, Minister of War, and Mr. Nelson T. Johnson, American Ambassador to China. When interviewed by the press at Nanking he made the following statement: "My trip to Nanking is merely to make social calls on Chinese officials. I am not planning to discuss any questions with them."

The American Ambassador, accompanied by the Acting Military Attache, went from Peiping to Shanghai to meet Mr. Dern and are now accompanying him during his stay in China. He experts to leave Shanghai for Manila on October 25th to participate in the inauguration of the Philippine Commonwealth Government.

10. China Receives League Notification.

On October 18th the Ministry of Foreign Affairs received radio instructions from the Secretary-General of the League of Nations setting forth the text of the resolution as adopted by the Coordination Committee on October 16th, and reminding the Chinese Government of its obligations under Article 16 of the League Covenant. A complete list was included of the restrictions to be placed on the shipment of war materials to and on financial dealings with Italy.

For China to be a party in a plan to prevent another country from being invaded should certainly be called the height of something. However, Chinese leaders might easily receive inspiration from the Abyssinians who at least try to defend their country while calling on the League for help.

For and in the absence of the Military Attache
and the Assistant Military Attache:

H S Jernigan
H. S. Jernigan
Captain, Cavalry

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COMMENTS ON CURRENT EVENTS

October 26—November 8, 1935

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   - Bank Note Issue
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2. Government Control of Finance
3. German Missions to Far East
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7. Inner Mongolian Affairs
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1. The National Government:

Draft Constitution.

On October 24th the general session of the Legislative Yuan met to discuss the revision of the Draft Constitution. From governmental circles it is learned that the main changes in the document have been to delete from it all articles which resemble administrative laws and to strike out the legal restrictions imposed upon the Vice-President and Governors.

In its present form the revised Constitution is said to consist of eight chapters comprising one hundred and forty-nine articles. Thirty articles have been taken out and one added in this revision. Discussions on the revised draft have been held for over a year (see G-2 Report No. 8949, item 1). Many changes have been made and many more can be expected before the document is finally adopted.

Bank Note Issue.

Advices from Nanking indicate that the Government is preparing to issue $50,000,000 in bank notes to cover current expenses. In view of the fact that the Government is running in the red further every month it is evident that some drastic action to control currency was necessary. The steps taken by the Ministry of Finance are discussed in a later paragraph.

Ambassador to Japan Returns.

General Chiang Tso-pin, Chinese Ambassador to Japan, arrived in Shanghai on November 2nd. He left for Nanking the same day to attend the Sixth Plenary Session of the Central Executive Committee. There is still talk of his being appointed to a new post in China and his replacement by someone closer to Chiang Kai-shek but no definite information regarding this is available.

2. Government Control of Finance.

On November 3rd the Chinese Government announced its new financial policy, which has been the subject of much conjecture for the past few months (see G-2 Report No. 9165, item 5). The main points in this are as follows:

> "1. Bank notes issued by the Central Bank of China, the Bank of China and the Bank of Communications shall be regarded as full legal tender and the banknote reserves of the three banks shall be placed under a unified control. Notes of all other issuing banks will continue in circulation but will gradually be withdrawn and replaced by notes of the Central Bank.
>
> "2. All debts expressed in terms of silver shall be discharged by the payment in legal tender notes of the nominal amount due.
>
> "3. All holders of silver are required to exchange their silver for legal tender notes.
>
> "4. The exchange value of the Chinese dollar will be kept stable at the present level, and for this purpose the Government banks will buy and sell foreign exchange in unlimited quantities."

Following the announcement of the new policy, Dr. H. H. Kung, the Minister of Finance, stated that the Government owned Central Bank was to be reorganized as the Central Reserve Bank of China which would devote itself chiefly to maintaining the stability of the national currency. The Central Reserve Bank is to hold the reserves of the banking system, to serve as a depository for all public funds and provide centralized rediscount facilities for other banks.

Dr. Kung also said that measures had been taken to strengthen the commercial banking system and place all commercial banks under sound financial conditions so that they may have resources available to finance all legitimate requirements of trade and industry. The balancing of the national budget within a period of eighteen months is another of the promises of the new financial policy.

For some months it has been evident that the National Government was increasing its expenditures without any hope of being able to meet its obligations. Just what the result of this new announcement by the Nanking Government will be upon the country is impossible to predict. The banking system of China is unlike that of any other country in the world and for centuries has depended upon private or family banks for the transaction of practically all business. It is only within recent years that some of the more progressive banks have made any attempt to adopt foreign ways and according to a prominent Chinese banker this in most cases has consisted in employing a few English speaking returned students and putting some foreign typewriters in prominent places for clients to see. He stated that the real business of the banks was carried on in the old manner and that the conservative bankers were afraid to let the foreign trained men have any responsibility.

The National Government has taken a very drastic step and it will be interesting to see what will come of it. Many Chinese bankers are known to be opposed to such measures. The foreign reaction has been divided so far with the majority of foreign banks saying nothing. The British at once approved the scheme and the British Ambassador published instructions on November 4th requiring British subjects to follow the Chinese Government regulations regarding the use of silver.

The Japanese, on the other hand, have not received the news with approval. Their banks in Shanghai announced that they would not comply with the requirements of the Chinese Government regarding the turning in of silver and that they reserved the right to speculate in exchange as they saw fit. The Japanese Army does not look favorably upon the new currency measures either, according to a prominent Japanese military man in Peiping, though its attitude toward these measures has not been announced.

The statement of the British Ambassador, which followed immediately upon the heels of Dr. Kung's announcement regarding currency control, is considered by the Japanese as evidence that Sir Frederick Leith-Ross, Chief Economic Adviser to the British Government, has made some financial agreement with the Chinese. While there is no concrete evidence that such is the case the connection must have some significance and it is quite possible that an arrangement may have been made between the British and Chinese Governments regarding preferential settlement of British debts. The Japanese think that the British have made a loan to China but if so it is difficult to see what the British Government can expect to gain by this action and the possibility is discounted pending further information.

3. German Missions to Far East.

According to press reports two German missions will visit the Far East in the near future. One will be official and the other unofficial and they will study economic conditions in this part of the world with a view to improving Germany's commercial position in the Orient.

The official mission which is being sent by the Ministry of Foreign Affairs will visit Japan, Manchoukuo, China and Siam. It will be composed of Herr O. C. Kiep, former Consul-General in New York, Dr. Knoll of the diplomatic service, and Inspector Rosenbruck of the Reichsbank.

The unofficial mission will visit China only and is being sent out by the "China Study Society". It is composed of Herr M. T. Strewe and Herr Radermacher of the German State Railways.

The Germans have been successful in doing business in the Far East at all times as they cater to the market far more than any other nation. They will take pains to make a thing as the Chinese desire it and not try to force an established product as do the British or attempt to convert the Chinese to a newer and better model as do the Americans. The present interest of the Germans in this area is due to the fact that they are endeavoring to create a demand for their goods before the Japanese flood China with their products and try to close the territory to foreign competition.

4. British Naval Attache.

British authorities have announced the appointment of Captain H. B. Rawlings, O.B.E., R.N., as the new Naval Attache to Japan and China to take the place of Captain J.G.P. Vivian, who returns to England in January 1936 after three years in the Far East. Captain Rawlings is at present attending the Imperial Defence College in London. He is a graduate of the Naval Staff College and was given the O.B.E. for services in connection with the British Military Mission to Poland in 1920. In addition to rendering distinguished service during the World War, Captain Rawlings has been in command of the "Delhi" and has acted as a staff officer in the Mediterranean Fleet.

5. Sixth Plenary Session.

The Sixth Plenary Session of the Central Executive Committee of the Kuomintang opened on November 1st as scheduled. After the opening exercises a great number of the delegates assembled for a photograph. Just as this was taken and the group was breaking up a man by the name of Sun Feng-min drew a pistol and fired several shots at Mr. Wang Ching-wei, President of the Executive Yuan. General Chang Hsueh-liang and Mr. Chang Chi, a prominent member of the Kuomintang, seized the assailant and prevented him from firing again. Two other gunmen were implicated in the plot which was said to have included the shooting of Chiang Kai-shek and others of importance.

Wang Ching-wei's bodyguard shot Sun but the other two escaped and after a running fight were captured. Sun died later of his wounds but his two accomplices are being held for investigation. Several of the other Chinese officials were wounded but none as seriously as Wang Ching-wei, who was hit three times. His condition is not dangerous, according to bulletins given out by the medical authorities, and an early recovery is expected.

Following the shooting the meeting continued but very little was accomplished that day, all being very much excited by the affair. For some reason General Chiang Kai-shek was still inside the building in front of which the photograph was taken and was not in the group. He ran out as soon as the firing started in an attempt to aid Wang Ching-wei, but Chang Hsueh-liang and Chang Chi were ahead of him. The actions of all the officials present at the shooting were apparently all that could be expected and have made a very favorable impression upon the people of the country who have come in contact with the Chinese press.

The Sixth Plenary Session closed on November 6th. From all that can be learned little of vital importance was accomplished aside from the suggestions made by various members. It is interesting to note that delegates from South China were present as well as Yen Hsi-shan of Shansi and Feng Yu-hsiang, the former "Christian General".

Like all Chinese political meetings the important decisions did not appear as business transacted. Rumors abound and the most important is to the effect that Chiang Kai-shek has decided to put the question of resistance to Japan before the party and not attempt to handle the Sino-Japanese question himself. It is reported that he has stated that he is the commander of the Army and if the Government wishes him to resist he will carry out instructions. If this is true it may be a clever move to call the hands of those who oppose his present policy as it seems most unlikely that any gathering in Nanking would come out with a definite decision to fight Japan. It is believed unlikely that any person or group of persons would accept the responsibility for such an action.

Other rumors forecast the appointment of General Ho Ying-chin, present Minister of War, as head of a new Department of National Defense and his replacement in the War Department by General Pai Chung-hsi of Kwangsi. This would insure cooperation by the South. Another possible change is said to be the nomination of General Chiang Tso-pin as Minister of Foreign Affairs and his relief as Ambassador to Japan. The rumor that General Chang Ch'un, at present Chairman of Hupeh, will be sent as Ambassador to Japan continues to be current (see G-2 Report No. 9165, item 7).

The shooting of Wang Ching-wei may have changed the political arrangements. It is known that he is very friemdly with Chiang Kai-shek and that Chiang's appeal to this personal relationship was the thing that made Wang continue his duties last summer following his decision to resign. Unfortunately the subordinates of each of these leaders are jealous and there is continual friction between them which causes Chiang and Wang considerable trouble. It is certain that if their personal friendship had not been very real there would have been great misunderstanding between them long ago.

So the Sixth Plenary Session is over. It nearly ended in tragedy and the loss to China of Wang Ching-wei, one of the most able leaders of the present day. A man of education, intelligence, force and a charming personality, it would have been a great calamity had the gunmen been better shots. As it turned out, the affair will very likely strengthen Wang's position and lessen the opposition of Chiang's subordinates to him. If such turns out to be the case it is believed to be to the best interests of the country as a person to fill Wang's place would be difficult to find.

6. **Sino-Japanese Relations**.

The cooperation between all agencies of the Japanese Government in China toward the furthering of Japanese aims in this country continues apparently unmarked by any internal dissension. Conferences are still being held (see G-2 Report No. 9225, item 2) and Japanese missions of one sort or another keep touring North China.

In the South the latest conference was held in Formosa and was attended by members of the Japanese Consular Service in South China as well as delegates of the Japanese Navy, including Captain Honda from Tokyo, who attended the Shanghai Conference. Questions said to have been discussed included plans for the development of Japanese interests in Kwangtung, Fukien, Siam, the Philippine Islands. It is stated that special inducements will be offered to Japanese to emigrate to those areas. It is interesting to note that soon after the conference the Chairman of Fukien, General Chen Yi, paid a visit to Formosa, ostensibly for the purpose of looking into the condition of Chinese settlers from his province. It is believed that the Chinese settlers in Formosa had very little to do with this visit.

✓ Shanghai and Nanking have a bad case of the jitters. Rumors are flying thick and fast and foreigners as well as Chinese are very much disturbed. As an example of this, it is known that the Chinese are actually considering the moving of the Hungjao radio station near Shanghai into the Foreign Settlement. On all sides there is a feeling that the Japanese are just ready to jump into North China and occupy it as they did Manchuria.

These fears are not confined to the man in the street only but even the key officials are just as susceptible to rumors. Personal conversations held during the past two weeks with the main political figures in the National Government prove this to be the case. In these conversations it was interesting to note the number of times the question of the moving of the foreign legations and embassies from Peiping to Nanking was brought up by the Chinese. Mayor Wu Tieh-cheng of Shanghai, a very influential official and close follower of Sun Yat-sen, made the following remark: "Some years ago we were afraid that the foreign legations would not move to Nanking, now we are afraid that they will". He went on to say that the Chinese considered the presence of foreign diplomatic officials and foreign troops in North China to be one of the stabilizing influences in the North and that such would help keep the Japanese from occupying that area. The same remark was made the next day by one of the most influential bankers in the country.

✓ It is evident that the Chinese high officials are more concerned than they have been for some time regarding Japanese pressure. Some of this is certain to be due to the fact that the Japanese have started rumors purposely and are working to create just this state of mind. On the other hand it is believed that pressure is being brought to bear on the Chinese officials in a more concerted way than has been Japanese policy for some months.

At the present time in Nanking there is believed to be a certain few who actually believe that they should resist Japan. Feng Yu-hsiang, who has been hibernating on Tai Shan in Shantung for some years, attended the Sixth Plenary Session, and a number of others of like mind were there. It is known that they advocate resistance to Japanese pressure by holding the line of the Lunghai Railway from Haichow to Sianfu. This is certainly a long way from the Japanese Army and gives up half of China without a fight. Other persons still think of Han Dynasty precedent and speak of retreating into Szechwan where after a few years of girding their loins they will emerge and conquer Japan! The truth of the whole matter is that no one knows what to do and they cannot make a decision as to how to do it.

In the North the Japanese coordination is accomplishing what they desire and that very fact reduces the possibility of armed occupation so feared in Nanking. Not only is this so but, while no brief is held for the intelligence of the Japanese military man, it is believed that there are enough officers in high positions who can see the matter in its true light. To occupy North China as they have done Manchuria would put Japan further in the red financially and take a greater military force than the Japanese can throw into that area without endangering their position vis-a-vis the Soviet menace to the rear. While of course it is impossible to predict what an incident might provoke at any time, this office is of the opinion that the Japanese do not plan to use armed force to secure their desires in China at this period.

The Kuantung Army seems uneasy regarding what they claim are the activities of the "Blue Shirts" in the North. On October 29th the Japanese Consul-General in Tientsin sent a note of warning to General Shang Chen in Tientsin, General Sung Che-yuan in Peiping, and to the Mayors of both cities, stating that investigations proved that anti-Japanese activities engineered by the "Blue Shirts" and other organizations were still being carried out in North China despite assurances on the part of the Chinese authorities that such would be prohibited. Chinese officials have informed the Japanese again that suitable action would be taken to prevent any anti-Japanese activities but the Japanese appear dissatisfied. Several Chinese officials have stated that they actually believed that the Japanese did not know what they wanted themselves and that their uncertainty made it very difficult for the Chinese who were trying to avoid trouble.

The possibility that Mayor Yuan Liang of Peiping would be replaced has become a fact and his resignation was accepted by the Nanking Government on November 3rd. Yuan was an appointee of General Huang Fu's and has given the municipality the best government that it has seen for some years. Due to better financial administration in his regime the city government has repaired roads, memorial arches, temples and other historic relics in Peiping. It is understood that for some reason his relations with the Japanese have been strained and that this is the cause for his removal.

General Sung Che-yuan, Commander of the 29th Army, was made acting Mayor until the appointment on November 6th of General Chin Te-chun. Chin's move from Chahar to Peiping leaves a vacancy as Chahar Chairman and Hsiao Cheng-ying has been gazetted to that post, according to information received just as this report is being prepared. It will be remembered that Hsiao was intriguing with the Japanese to secure the removal of Mayor Yuan Liang and his own appointment to the Peiping municipality. From the official reports it looks as though he had failed in this but of course neither he nor Chin have accepted their new posts and there is always many a slip between the cup of Chinese governmental orders and their acceptance by the official concerned.

The Peiping Branch Military Council appears to be on its last legs and Major Takahashi was heard to say some days ago that such an organ was unnecessary in North China any longer. Actually this council has done very little in the past and merely served as an excuse for General Ho Ying-chin's presence in Peiping to keep a check on the doings of General Huang Fu and his Political Council. The latter has been abolished and it is believed that the Military Council will soon follow in its footsteps.

The Japanese have caused considerable uneasiness in the last few days by arresting several suspects whom they say are members of the "Blue Shirts". These arrests have actually been made by Japanese gendarmes as well as other arrests by Chinese police upon the request of the Japanese.

7. Inner Mongolian Affairs.

The dispute between the Mongolian Political Council and Dorlchi or Shih Wang, Chief of West Oriat Banner of the Olanchab League, remains unsettled. Efforts of the National Government, which were about as unwelcome to one side as the other, have been unable to smooth the troubled waters (see G-2 Report No. 9225, item 5).

Reliable information from confidential sources is to the effect that there is a decided split in the Mongolian Political Council. For a time Prince Te (Te Wang) of East Sunnit Banner was the dominating figure of the Council. He has been Chief Secretary of that body and has been the power behind Yun Wang, the venerable but impotent President. The Council demanded the dismissal of Dorlchi due to a disagreement with Yun Wang who was supported by Te Wang.

It will be remembered that Chairman Fu Tso-yi of Suiyuan has been opposed to the Mongols having any sort of self government as it lessened his own power in Mongol territory and also reduced the opium revenue which has been the main financial support of his province. He has been intriguing with the various Princes including Dorlchi in an effort to alienate them from the Mongolian Political Council. His support of Dorlchi against the Council is well known.

Another method Fu has used to oppose the Council is to have some of the influential Princes appointed to positions by the National Government. For example, he has just secured the appointment of Kang Wang of the Ordos as Bandit Suppression Commissioner of that area. Fu, by causing bandit disturbances in the Ordos, was thus able to keep Kang Wang from attending the recent meeting of the Council at Pailingmiao. Using various other means he was successful in keeping Ah Wang, the second in command of the Ordos League, the Durbet Wang of the Olanchab League, the Prince of Dondergun, who is the most influential Prince of the Oriat Banners, and the Prince of Alashan (Ninghsia) from attending the meeting.

Thus it is evident that none of the influential Princes of western Inner Mongolia attended the Pailingmiao conference and only a very few sent their representatives. This meant that a powerful block of nearly half the Council did not attend and it was largely due to the influence of Fu Tso-yi's underhand efforts to bribe one against the other and break up the Pailingmiao Council.

The success of Fu Tso-yi in influencing so many of the Western Princes to remain away from Pailingmiao is believed to have been due to three things: First, his efforts to bribe and influence various Princes by presents and political appointments, which tactics he has been following for a long time; second, the case of the dispute between Dorlchi and the Council, for which Fu was directly responsible; third, the presence and advice furnished by the Japanese "Resident Officer" in Kweihwa, who was present at Pailingmiao during part of the conference and who is stated to have a certain amount of influence with the Provincial Government in Kweihwa.

It can be seen from the above discussion that the failure of the Western Princes to attend the Political Council meeting and the inability of that body to settle the case of the Dorlchi has caused a great loss of face for Te Wang. It made the Conference practically a meeting of the Eastern Banners and as such the case of the recalcitrant Shih Wang was not settled. One story is that the Japanese "Resident Officer" suggested that Shih Wang "k'e t'ou" (kowtow) to Yun Wang and remain in charge of the West Oriat Banner. This would make Te Wang lose still more face as he had previously announced that Shih Wang must go, and that the matter was a test of the efficacy of the Meng Cheng Hui - Mongolian Political Council.

The result of this internal dissension between the Princes has made conditions in Inner Mongolia more unsettled than for some years. The trip of the Japanese "Resident Officer" in Kweihwa cannot be without significance. It is believed most likely that he has advised Fu Tso-yi with a view to breaking up the Council and as this is Fu's personal desire as well, relations between the two are said to be very cordial.

For some time the Japanese have been trying to bribe and influence Te Wang to join with them. He has given them no encouragement as he believes that to accept Japanese favors means the end of his dream for an independent Mongolia. It is known that the Japanese have not been pleased with his attitude and hence would be willing to throw their influence toward the Chairman of Suiyuan in his efforts to keep the Western Princes away from the Political Council meeting. As noted above, the unsuccessful meeting has considerably lessened the influence of Te Wang and it is believed that the Japanese hope Te Wang will now be more willing to listen to their advice.

8. Conditions in Sinkiang.

Despite the publication of official reports to the effect that Sinkiang Province is loyal to the Central Government, it is believed that Chinese official influence in that area is practically non-existent and will cease altogether in the near future. The British are in the best position to know conditions in this border province and they are much worried over the increasing Russian influence there. This is evidenced by the recent trip of Sir Eric Teichman, Chinese Counsellor of the British Embassy in Peiping, who is now on his way to India via Sinkiang (see G-2 Report No. 9209, item 5).

While the skeleton of Chinese official organization is said to be maintained in Urumchi (Tihwa) and other places, each key official has a Soviet adviser. In some cases the Soviet adviser actually handles the administration as in the case of Molikoff, who lives in the Governor's Yamen in Urumchi and gives the orders.

The O.G.P.U. has been organized in Sinkiang under a man by the name of Pogradin, who comes from Siberia. The man nominally in charge but who takes orders from Pogradin is Chang Wu-hsien, a young Chinese educated in Moscow.

The best information obtainable is to the effect that except for a strip along the borders of Tibet, Tsinghai (Chinghai) and Kansu, all the areas and towns of any importance in Sinkiang are under Soviet influence.

For and in the absence of the Military Attache:

S. V. Constant
S. V. Constant
Major, Cavalry
Acting Military Attache

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COMMENTS ON CURRENT EVENTS

December 7—20, 1935

RECEIVED G/2 W. D. JAN 16 1936

1. The National Government:
   The New Cabinet
   Hupeh Chairman Appointed
2. Sino-German Relations
3. New French Ambassador
4. Manchoukuo Bonds
5. Peiping Students Demonstrate
6. Japan and Inner Mongolia
7. Situation in North China

1. The National Government:

The New Cabinet.

On December 12th the new Cabinet was organized under the Premiership of General Chiang Kai-shek, who is the new President of the Executive Yuan to replace Wang Ching-wei. The heads of the Ministries are as follows:

Foreign Minister - General Chang Chun, former Chairman of Hupeh. Was Chiang's Chief of Staff and has attended the Tokyo Staff College.

Minister of Interior - General Chiang Tso-pin, former Ambassador to Japan.

Minister of Finance - Dr. H. H. Kung (Kung Hsiang-hsi). Retained in the Cabinet. His wife is a sister of Madame Chiang Kai-shek, T. V. Soong and Madame Sun Yat-sen.

Minister of War - General Ho Ying-chin. Retained in the Cabinet. One of Chiang's original commanders.

Minister of Navy - Admiral Chen Shao-kuan. Retained in the Cabinet.

Minister of Industry - Mr. Wu Ting-chang, former Vice-Minister of Finance.

Minister of Railways - Mr. Chang Kung-chuan, former Governor of the Bank of China.

Minister of Communications - Mr. Ku Meng-yu, former Minister of Railways.

Minister of Education - Mr. Wang Shih-chieh. Retained in the Cabinet.

From M/A, China Report No. ~~9201~~ 9257 December 20, 1935

The Cabinet of course is hand picked by Chiang Kai-shek and he now has more power than ever before in his hands. The much talked of period of political tutelage may be over but instead of a definite change towards constitutional government we find a dictatorship. This condition is only what might have been expected and it is believed that it is the best thing for China at this time. What China needs just now more than ever before is a strong man behind whom some measure of unity may be achieved. Chiang is certainly the strong man and he has almost unlimited power in his hands. Whether he can use that power to the best interests of China remains to be seen.

In this connection it may be of interest to note the most important official positions held by Chiang Kai-shek:

Chairman of National Military Affairs Commission
Chairman of the Executive Yuan
State Councillor of the National Government
President of the Central Military Academy, Nanking
Chairman of the National Aviation Commission
Member of Kuomintang Central Executive Committee
Member of the National Economic Council
Member of the National Defense Commission

Hupeh Chairman Designated.

Following the appointment of General Chang Chun as Minister of Foreign Affairs, the Nanking Government announced on December 17th that he would be succeeded as Chairman of the Hupeh Government by General Yang Yung-tai, the Chief Secretary of Chiang Kai-shek. General Yang has been a trusted lieutenant of the Generalissimo ever since the operations against the communists in Kiangsi, where he was in charge of the Nanchang Headquarters. His advice has proved excellent on many occasions and he has gradually risen to a position of trust and influence.

2. Sino-German Relations.

Efforts continue on the part of German officials in China to better the relations between the two countries (see G-2 Report No. 9235, item 3). On December 12th the German Ambassador, Dr. Oscar Trautmann, broadcast a speech on "German Universities" from the Central Radio Station in Nanking, which has received many favorable comments.

Another event considered favorable to the bettering of Sino-German relations has been the opening of the Deutschen Nachricten Buros or German News Office in Nanking. This move transfers the main office of that organ from Shanghai to Nanking. It will be in charge of Captain Gegeben von Frederich Glimpf.

3. New French Ambassador.

It is learned from the Foreign Office that the Chinese Government has accepted the appointment of M. Naggiar as the new French Ambassador to succeed the late M. Wilden. The new Ambassador is at present representing his country in Czechoslovakia. He entered the diplomatic service in 1908. He served as Consul-General in Yunnanfu in 1911, and in Shanghai in 1912 and again in 1925.

4. Manchoukuo Bonds.

The third issue of Manchoukuo National Bonds is expected to be put on the market soon after the first of next year. This loan is stated to be for Yen 30,000,000 to be used for payments in kind for the purchase of the North Manchuria Railway (former Chinese Eastern).

One-third of the new issue will be accepted by the deposits section of the Japanese Government Finance Department in Tokyo, one-third will be subscribed by the members of the Japanese Banking Syndicate, and one-third will be placed on the market for public subscription. The issue is in charge of the head office of the Bank of Industry in Tokyo.

5. Peiping Students Demonstrate.

December 9th in Peiping was the scene of the first large student demonstration that the city has seen for some years. Prepared in advance, the affair might have been serious had it not been for the efficient manner in which the police handled the matter.

The original plan was for the student groups from Yenching and Tsing Hua Universities, outside the city wall, to enter the city and join with other students to form a united protest to General Ho Ying-chin against the so-called autonomous moves in the Peiping-Tientsin area. The bus lines from Yenching and Tsinghua were stopped so the students, about eight hundred in number, were forced to walk the six miles to the Hsi Chih Men Gate. This the police had closed as well as the other west gates of the city, and the students were not allowed to enter.

The groups from the colleges and middle schools inside the city wall met and paraded carrying improvised banners "Opposing Imperialistic Japanese Aims" and various anti-autonomous slogans. About three in the afternoon they decided to march to the Japanese Embassy in the Legation Quarter. The police tried reasoning with the students but to no avail and finally near the corner of Morrison Street they turned fire hoses on the crowd which quickly dispersed as the weather was bitterly cold. The next morning orders were issued by the Peiping Police Headquarters to the effect that student parades and demonstrations were prohibited.

Colonel Takahashi of the Military Attache's Office made a protest to the municipal authorities against the anti-Japanese slogans used by the students. He also called attention to the fact that communist agents were at work since some of the hand-bills picked up by Japanese stated that the "People of Russia and China should unite and arise against Japan".

On December 16th there were more student demonstrations and these reached far more serious proportions. The west gates of the city were closed to keep out the Yenching and Tsinghua University students. Several hundred of these walked entirely around the west wall and tried to enter through the Hsun Chih Men Gate in the southwest of the city. The police closed this gate but one girl student crawled under in an effort to open it. She was badly beaten by the police as were many others in a free for all fight which ensued after the police had promised the students that they would open the gate if they would disperse in small groups. As soon as the small groups were leaving the gate reinforcements of police arrived who chased the groups up the small alleys and beat them with clubs and broadswords.

The students of course have the sympathy of everyone except the Japanese, who have placed another protest in the hands of Sung Che-yuan. The police are in the unenviable position of suppressing a really patriotic move and assisting the Japanese! Realizing the futility of the student activities, one cannot help but see that theirs is the only outward opposition that has dared show its face and give them credit accordingly. The unfortunate part about the whole affair is that should the students continue in their activities there is certain to be trouble which will cause the police to shoot the few of their own people who have courage to tell the Japanese what they think of them and their bogus "autonomy movement".

6. Japan and Inner Mongolia (see map attached).

Conditions in Inner Mongolia are fast reaching what may well be a new crisis. It will be remembered that some weeks ago several of the influential Mongols went to Nanking in order to be present at the Fifth National Congress of the Kuomintang and to try to have their case receive the personal attention of General Chiang Kai-shek (see G-2 Report No. 9240, item 6). These delegates included Sayinbaier, the former Mongol cavalry general and the personal representative of the Te Wang, Secretary of the Mongolian Political Council.

Sayinbaier, or Pao Yueh-ching as he is called in Chinese, returned in a very pessimistic frame of mind. He had seen Chiang Kai-shek but had been unable to secure any statement as to what the Nanking Government would do to help the Mongols. As regards the case of the Shih Wang, Dorlchi of West Oriat Banner (see G-2 Report No. 9235, item 7), it appears that Nanking will not assume any responsibility in the matter but has decided to leave it to the Suiyuan authorities. Inasmuch as these latter officials are involved with Dorlchi in the effort to cheat the Mongols out of their just portion of the opium tax, the Mongols feel that the situation is hopeless. They are convinced that the National Government will not support the Mongolian Political Council in this or in any other matter for which the Council was set up. They feel that it has become a name only and are cruelly disappointed at the failure of Nanking to back the Mongols in the first test of the power of the Council in settling internal Mongolian affairs.

With the inability of Chiang Kai-shek to offer anything but empty promises on one side and an increased Japanese pressure on the other, the Mongols are between the devil and the deep blue sea. As one of their generals stated, they cannot fly to heaven and there is no way of seeking security in the earth. Time alone can solve the problem and the Mongols cannot see any way by which they have hope for better times.

Japanese pressure has been evident more than ever during the months of November and December. An office of the Special Service Department of the Kuantung Army has been established at Te Wang Fu, the Palace of Prince Te in Chahar, with a Japanese Lieutenant-Colonel in charge and a personnel of some seventeen other ranks. These include the investigators and a veterinary surgeon who have been living near there for the last year. This mission is continually pressing Te Wang to cooperate with the Kuantung Army and he has been having a very difficult time to avoid committing himself.

On December 8th news broke that Manchoukuo troops had been operating in the vicinity of Kuyuan and Paochang, two towns about half way between Kalgan and Dolonnor in eastern Chahar. While it is known from both Chinese and Mongol sources that these operations are reported greater than have actually occurred, yet the fact exists that the Japanese have caused them and the Chinese are not able to resist due to the movement of the 29th Army south of the Great Wall. The actions of Manchoukuo troops which have Japanese staff personnel are thought to be for the purpose of hastening the formation of the new Hopei-Chahar Council in Peiping composed of persons acceptable to Japan, and also to hurry Te Wang into making a decision to join forces with the Japanese in bringing Chahar and Suiyuan under their influence.

It is known that some time ago the Japanese offered the Mongols help in forming a "Meng Ku Kuo" or Mongol nation to be composed of Chahar, Suiyuan and the Mongol territory of Hsingkan in Manchuria. This did not materialize because the Mongols thought they could gain more by staying with China and because from refugee Manchurian Mongols they learned that Japanese promises to their brothers in that territory were not being carried out. Whether such an offer is still open to Te Wang and the other Mongol Princes is not known.

However it is certain that the Kuantung Army will keep pressing the Mongols for greater influence in the affairs of Inner Mongolia. As stated in many previous reports it is not believed that the Mongols have any desire to join with Manchoukuo or with Japan under any guise but it becomes increasingly evident that should Japanese pressure continue, the Mongols will be forced to take some action. From recent conversations with influential Mongols who really control the Chahar and most of the Suiyuan Banners it is clear that they believe that they cannot hope for any assistance from Nanking in solving their troubles. There is considerable sentiment that an alliance with Japan is inevitable. The main question seems to be how long can this be avoided and yet allow the Mongols to expect any kinds of terms from Japan.

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If they wait too long there is the chance that the Japanese will throw pretense aside and occupy the palaces of the main dignitaries with troops instead of with "missions". Should this happen the Mongols can hope for the terms given a conquered people. They know they can fight but their ammunition is limited - the Chinese have seen to that. So the actions of the Chinese and their failure to deal fairly with the Mongols will be likely to cost China the loss of Chahar and Suiyuan north of the Great Wall.

As this is being written information has been received from unofficial but reliable sources to the effect that the Japanese military authorities have presented demands to the Chinese officials in Kalgan which require the cession of six "hsien" or districts in Chahar to Manchoukuo. These are stated to be Kuyuan, Paochang, Chengpei, Kangpao, Huoteh and Shangtu. The attached map will show the area covered by these districts. Their importance is evident and the Japanese intrigue for their control started last June.

The most important figure in the territory included in the six "hsien" is a Mongol by the name of Joddajab, or Cho Shih-hai as he is called in Chinese, who has the title of Amban. This gives him control over the Banner troops of the twelve Chahar Banners. His own Banner is the Cheng Lan Ch'i or All Blue Banner which lies nearest to Dolonnor. Since last summer the Japanese have tried to bring pressure upon him to join with them. Up to this time he has been successful in resisting their efforts but now the situation looks critical.

Joddajab was in Peiping until recently when he received word that his family was being held as hostages by the Japanese. He at once went to Kalgan but was able to stall off the Japanese and remain there until the Japanese-Manchoukuo troop operations in the vicinity of Kuyuan had started. This proved that Joddajab had not sold out to the Japanese. The whereabouts of his family is not known but it is thought they are now in Kalgan. All his property, flocks, etc., are still at the mercy of the Japanese.

It is understood that the Chinese are endeavoring to negotiate with the Japanese in an effort to try to save two of the districts for China. It will be seen by the map that the territory mentioned in the six "hsien" is very important because of its geographical location. If the Japanese can force Cho Amban to join them and can incorporate these "hsien" into Manchoukuo, or even if they can exercise closer supervision over them, they will control the Kalgan-Urga road, drive a wedge between the Chinese at Kalgan and Prince Te's Palace at Narranboluk and place themselves in a better position to exercise influence over Shansi and Suiyuan. The advantages will be tremendous and it is quite evident why the Chinese will strive to retain the two most western of the six "hsien" if it is possible to do so.

Thus the Japanese are working adroitly to increase their control of Inner Mongolia. Their last move in this area is by far the cleverest they have made for many a day. By this the position of Te Wang is made very difficult. This individual, the brains of the Mongolian Political Council, has always been more friendly with the Chahar officials than with the Suiyuan crowd. The recent trouble with the latter over the Dorlchi of West Oriat Banner, mentioned earlier in this report, has made their working together almost impossible.

The action of Nanking to leave the Dorlchi dispute in the hands of Suiyuan has convinced Te Wang that the Mongols can expect nothing from Chiang Kai-shek. Now the action of the Japanese to cut off Te Wang's only remaining friends, the Chahar Chinese, is the last straw. Prince Te's trusted representative, Pao Yueh-ching, recently said that "Chiang Kai-shek was pushing them into the arms of the Japanese, unwilling as they were to go", and the facts certainly confirm his statement. If the Japanese are successful in their latest move and they secure the six "hsien" they desire in Chahar, Te Wang will have his back to the wall. Will he go down fighting for Nanking which has done nothing for him or any of the Mongols or will he advocate to the other Mongol Princes some policy of cooperation with the Japanese? The chances are on the latter, as by doing so the Mongols may get the best of a bad bargain and hope for some few concessions from Japan.

Perhaps some miracle may yet save the Mongols and enable them to achieve some measure of their dream for a united Inner Mongolia under their own Princes. This office believes that there is no chance of their joining Outer Mongolia as some circles think. Aside from all other reasons, the Soviets would not have them at this time. Russia will fight in Siberia or Outer Mongolia if she is attacked but she would not of her own accord bring on war with Japan. Any move such as just mentioned would bring immediate war with Tokyo as the Japanese Army would not permit Soviet influence in Inner Mongolia. Whatever may come it is certain that the outlook is a gloomy one for the sons of Genghis Khan.

7. Situation in North China.

After the arrival in Peiping of General Ho Ying-chin, the Minister of War, and a number of other important officials (see G-2 Report No. 9251, item 5) conditions took a turn for the better. Many conferences were held and rumors of all kind were prevalent. Finally on December 8th it was generally accepted that some agreement had been reached between the group in Peiping represented by Hsiao Chen-ying and Sung Che-yuan on one hand and between the Chinese leaders and the Japanese authorities on the other.

To make a long story of political jockeying and intrigue into a short statement of fact, suffice it to say that out of the Pandora's box of North China has emerged a new body to be known as the "Chi-Ch'a Cheng Chih Wei Yuan Hui", or the

Hopei - Chahar Political Council. This body was inaugurated after several false starts on December 18th. It was the subject of protest by the Peiping students as mentioned earlier in this report.

The Council is composed of the following members:

General Sung Che-yuan, Commander of the 29th Army and Pacification Commissioner of Hopei and Chahar.

General Hsiao Chen-ying, formerly Chief of Staff for Sung. He is the rascal who out of spite against the Nanking Government has been responsible for most of the intrigue of recent weeks in North China. His reward has been his appointment as Mayor of Tientsin. He is Sung's right hand man.

General Wan Fu-lin, Commander of the 53rd Army. Belonged to the old Fengtien Party.

General Wang I-tang, member of the former Peiping Political Council and belonged to the old Anfu Party, a pro-Japanese clique.

Liu Che, former Governor of Kirin. Belonged to the Fengtien Party.

Kao Ling-wei, a former Northern official. Belonged to the old Chihli Party under Wu Pei-fu.

Chin Te-chun, formerly Chief of Staff of the 29th Army and now Mayor of Peiping.

Chang Tzu-chung, Commander of the 38th Division of Sung's 29th Army and recently appointed Chairman of Chahar.

Wang Ke-min, head of the former Peiping Political Council. Belonged to the old Chihli Party.

Chou Tso-min, a well known banker. Returned student from Japan. Managing Director of Kincheng Banking Corporation.

Meng Chih-chung, formerly one of Feng Yu-hsiang's commanders in the old Kuominchun with Sung, Hsiao and others.

Cheng Ke, recently Mayor of Tientsin. A Japanese returned student and belonged to the old Chihli Party.

Leng Chia-chi, former head of the Peiping Chamber of Commerce and now Manager of the Peiping Branch of the Agricultural and Commercial Bank.

Shih Ching-ting, former Kuominchun commander under Feng Yu-hsiang.

Hu Yu-kun, member of the old Fengtien Party.

Li Ting-yu, member of the old Chihli Party.

Chia Te-yueh, former Premier in the old Peking Government. Belonged to the Chihli Party in the days of Wu Pei-fu.

Of the seventeen persons named above, all were present for the inauguration of the Council except Wang Ke-min and Chou Tso-min, who are in Shanghai, and Cheng Ke, who is sick in the hospital in Peiping. There may be slight additions or changes before the final slate is functioning. It was rumored that Yin Ju-keng, the head of the bogus "Eastern Hopei Anti-Communist Autonomous Council", would be given a place but his name has not appeared. Despite the fact that Nanking has ordered his arrest, he has rented a house at 29 Nan Chih Tzu belonging to the Chinese Customs Service and is living there with his two Japanese wives.

General Doihara is again in Peiping but is keeping very quiet. The Japanese military are quite in evidence and trucks with soldiers in full field equipment and carrying enormous Japanese flags can be seen parked at important parts of the city and the large markets during the daylight hours every day.

✓ Many important staff officers of the Japanese Army have been visiting Tientsin and Peiping and word has just been received that Colonel Hiroshi Nemoto, Chief of the Intelligence Office in Tokyo, arrived in Shanghai on December 18th. He is said to be on his way to South China.

Among the important personages who have visited Tientsin are Colonel Soiichi Kita, Chief of the China Section of the Japanese General Staff, and Colonel Toshinori Nagami, formerly of the Kuantung Army, who will be the new Chief of Staff for General Tada. Incident to their arrival there have been several conferences and evidence of increased Japanese activity in Tientsin and along the Peiping-Mukden Railway. In this connection, an amusing incident was told by one of the foreign railway staff of the Pei-Ning line.

✓ It seems that for some weeks Japanese have been coming into the Traffic Manager's office and requesting permission to dispatch trains on the line from Shanhaikwan to Tientsin. Naturally this request was refused. One day recently the same Japanese appeared and instead of a request they this time presented a demand that they handle train dispatching. They stated that they had complete wire lines laid, instruments, personnel and facilities ready to take over this work. They told the foreigner that they would give the railroad authorities 24 hours to think the matter over and that if they did not accept, the Japanese would then cut the Chinese wires and take over the train dispatching themselves.

The foreigner stated that he naturally protested against such a thing but that if that was what they intended to do he must know with whom he was dealing and what authority they had for such action. The Japanese then stated that the four men concerned were Lieutenant Yamoto, head of the Railway Traffic Bureau of the Kuantung Army at Shanhaikwan, and three other Japanese whose names are immaterial but who were officers of the Manchoukuo State Railway Service with head office in Hsinking.

The facts above were told to another foreigner, a newspaper correspondent, who immediately sought an interview with General Tada, Commander of the Japanese Garrison in North China. The correspondent asked General Tada if they had any intention of taking over the railway line, to which General Tada emphatically replied in the negative. The foreigner then stated that he knew that such plans were under way and in fact had a list of the Japanese officers who were to handle train dispatching, and added that he intended to send this to his home paper. General Tada was shown the list, left the room and returned with a statement to the effect that his Intelligence Service had stated that such plans were made at one time by the Kuantung Army but of course they had nothing to do with Japanese plans in North China at the present time, since it would not be necessary to bring troops into that area.

The correspondent then asked if he might wire home that these four Japanese were not to handle train dispatching from Shanhaikwan to Tientsin. General Tada said that the Japanese Army did not intend to do this at the present time. The next day the foreign correspondent again met the railway man and the latter told him that the four Japanese had been sent back to Manchuria.

Whether this is a case of the right hand not knowing what the left hand was doing or whether the obvious undesirable publicity which would undoubtedly have come was the cause of General Tada's action is not known. It is the belief of this office however that in a situation like the present one, all Japanese agencies will work to obtain the maximum for themselves with only slight coordination. It is also evidence of the fact that apparently for the first time the Commander of the Japanese forces in North China has shown control over elements of the Kuantung Army.

1 map attached

S. V. Constant
S. V. Constant
Major, Cavalry
Assistant Military Attache

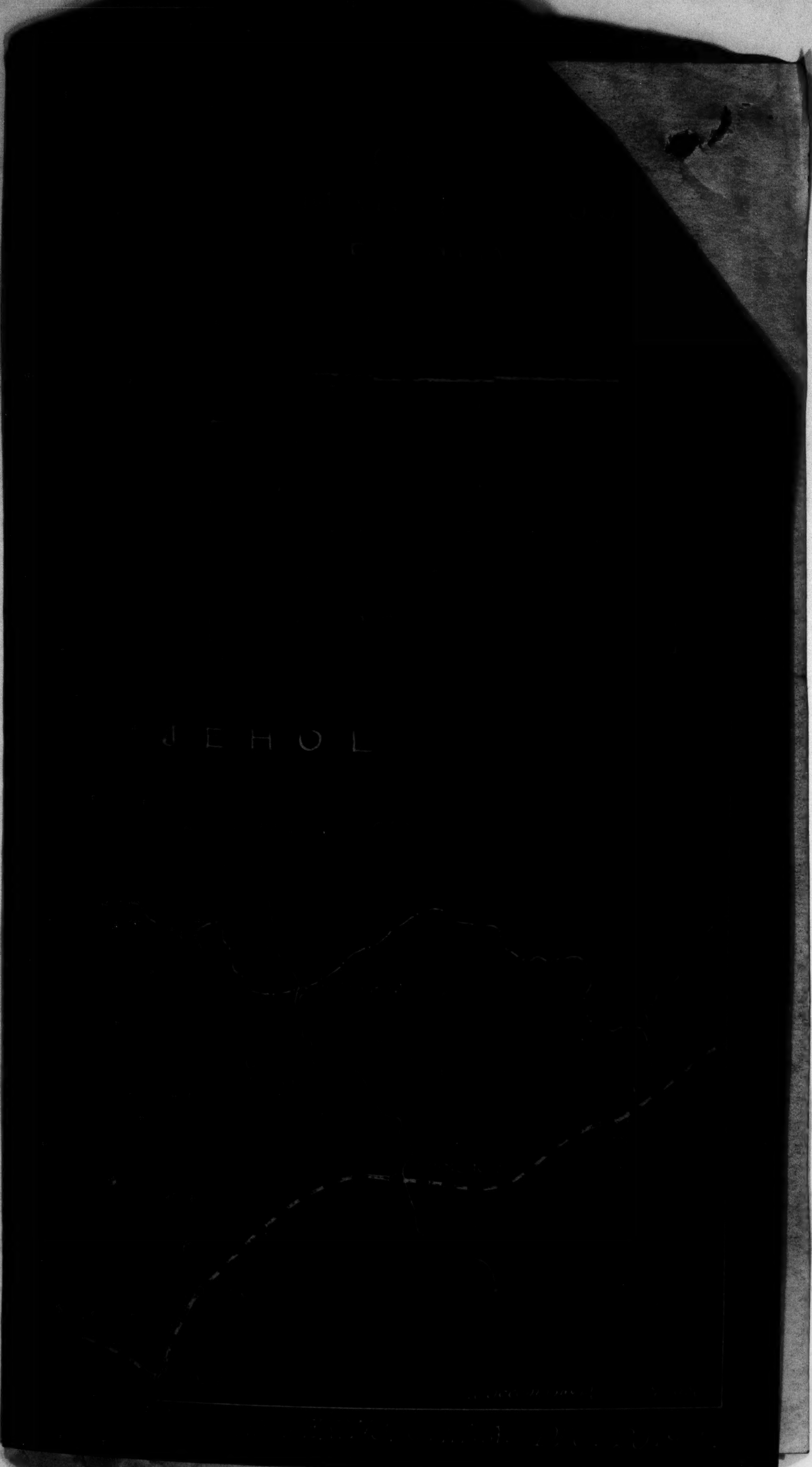
No. 9257 ~~9201-a~~ 1st Ind. JWS

Office of the Military Attache, American Embassy, Peiping, China, December 20, 1935 - To: Chief Military Intelligence Division, Washington, D.C.

Approved.

Joseph W. Stilwell,
Joseph W. Stilwell
Colonel, Infantry
Military Attache

CHAHAR
SUIYUAN
LINE OF DEMILITARIZED ZONE
SHANSI
HOPEI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COMMENTS ON CURRENT EVENTS

November 23 - December 6, 1935

RECEIVED G/2 W. D. JAN 2 1936

1. The National Government:
   Kuomintang Congress Closes
   Chiang Kai-shek's Manifesto
2. British Economic Adviser
3. General Blucher Promoted
4. British Official in Sinkiang
5. Peiping Military Council Closes
6. Japan and North China
7. New Japanese Attache

1. The National Government:

Kuomintang Congress Closes.

The Kuomintang National Congress closed on November 23rd after being in session for ten days. At the last two meetings the 260 members of the Fifth Central Executive and Supervisory Committees were elected.

From the mass of material that came before the Congress it would appear that twelve important policies were advanced which if carried out will do much for the country. These were as follows:

1. The upholding of China's traditional virtues.
2. The promotion of scientific education.
3. Extension of popular education to the lowest classes.
4. Development of national economy to improve the livelihood of the people.
5. Formulation and enforcement of a good personnel system (an effort to eradicate family and friends from being the deciding factor in official appointments).
6. Cultivation of respect for the law.
7. Enforcement of the supervisory system and encouragement of censorship (an effort to unify administration under Nanking).
8. Emphasis upon administration of frontier provinces and education of their people (an effort to regain some control over Tibet and Sinkiang).
9. Embarkation of a constitutional government.
10. More conscientious observance of the teachings of Sun Yat-sen.

Chiang Kai-shek's Manifesto.

The closing session of the Kuomintang Congress was the scene of a long and spirited speech given by Chiang Kai-shek. He made a stirring appeal to the country to follow the ideals of Sun Yat-sen and enjoined the nation to rise in the present crisis to seek national salvation and national reconstruction. By some persons this is looked upon as an evidence that the Nanking Government is preparing to take positive measures against the Japanese actions in North China, but if such is the case it must be by some indirect method which as yet has not appeared to the careful observer.

2. British Economic Adviser.

Sir Frederick Leith-Ross, Chief Economic Adviser to the British Government, is at present making a visit to North China. His arrival in Shanghai and his conferences with Dr. H. H. Kung, the Chinese Minister of Finance, are looked at askance by the Japanese. They believe that he must have made some concrete offers to the Chinese Government or they would not have announced the new financial policy of November 3rd (see G-2 Report No. 9235, item 2).

Certain Chinese opinion is to the effect that Leith-Ross, Kung, T. V. Soong, and Chiang Kai-shek have come to an agreement which includes a large British loan. The Japanese are willing to believe this and hold the British responsible for China's new financial scheme. They further believe that Sir Frederick came to the North for the purpose of breaking up the so-called autonomy movement and are said to have threatened violence if he was too active in Peiping.

As far as is known Sir Frederick's only activities in the North have included an interview given in Tientsin which is said to have drawn the Japanese threat, and a speech made in Peiping before the Anglo-American Association. This speech was admitted by the British present to have been a masterpiece in talking a lot and saying nothing. The only reference made to local conditions was when at the close of his speech, Leith-Ross stated that he hoped people would look on the new financial policy of the Chinese Government as an economic and not as a political or military matter.

Despite current rumors the possibility of a large British loan to China at this time is not considered likely.

3. General Blucher Promoted.

Among the high military officers of the Soviet Army to receive the rank of Marshal in accordance with the recent reforms in the U.S.S.R. forces was General Blucher. General Blucher commands the Red Banner of the Special Far Eastern Red Army in Siberia and will be remembered under the name of General Galen when he served as military adviser to Chiang Kai-shek in Canton about twelve years ago.

4. British Official in Sinkiang.

According to British sources, Sir Eric Teichman, the Chinese Counsellor of the British Embassy, reached Kashgar on November 29th. Sir Eric left Peiping early in September on a journey to India via Sinkiang (see G-2 Report No. 9209, item 5).

His journey was supposed to be a sort of farewell trip prior to retirement but it has recently been established definitely that the expenses are being borne by the British Government. There is no question but the British are fearful regarding Soviet influence in Sinkiang and the threat of the "Back Door to India".

5. Peiping Military Council Closes.

On November 27th the Peiping Branch Military Council held its last meeting to decide on measures regarding the closing of the Peiping office. The abolition of this body has been expected for some time and its efficacy has been negligible since the departure of General Ho Ying-chin. According to information from members of the Council it is expected that many persons connected with it will be transferred to new posts such as in the anti-Red headquarters in Sian and the Pacification Headquarters for Hopei and Chahar. Another possible place for these officials is in the Peiping Office of the Executive Yuan which reports indicate that Ho Ying-chin will establish in the "old capital" in the near future.

6. Japan and North China.

Following the failure of the Japanese to set up an autonomous government on November 20th as scheduled, the situation in the five northern provinces of Chahar, Suiyuan, Hopei, Shansi and Shantung has been more tense than for many a year. Particularly has the crisis been evident in Tientsin and Peiping where each day it has seemed that another could not pass without some grave events taking place. That the situation on the surface still remains calm would furnish the subject for a lengthy thesis upon the subject of Oriental psychology in general with particular reference to the Chinese angle.

After General Doihara left Peiping for Tientsin on November 20th in a fury because Hsiao Chen-ying had failed to wrap up the autonomy package and present it for the Japanese chop, opinion in general looked for the lightning of the Kuantung Army to strike again in North China. All were quite surprised at the meek little announcement on November 25th from Yin Ju-keng, former Administrative Inspector of the Demilitarized Zone, that an "Eastern Hopei Anti-Communist Autonomous Council" had been organized with headquarters in Tungchow. This new council was stated to consist of twenty-two hsien (districts) of Hopei which would include the eighteen in the Demilitarized Zone and four others including the port of Tangku - of "Tangku Truce" fame.

On November 26th the National Government awoke to action and published three mandates which were as follows:

1. To instruct Hopei officials to arrest Yin Ju-keng.

2. To appoint General Ho Ying-chin, Minister of War, as head of a new Peiping office of the Executive Yuan to replace the Peiping Branch Military Council, the functions of which body were to be transferred to the direct control of the Military Affairs Commission in Nanking.

3. To appoint General Sung Che-yuan, Commander of the 29th Army, as Pacification Commissioner of Hopei and Chahar provinces.

Meanwhile two conferences had been held between General Chiang Kai-shek and Mr. Ariyoshi, the Japanese Ambassador, but no announcements were made as to the result of these or any indications which would tend to clarify the muddled Sino-Japanese situation. Apparently the Kuantung Army began to tire of long distance diplomatic tactics and did not approve of the transfer of negotiations to Nanking where they could not have as active a finger in the pie, for they began to move troops up the Peiping-Mukden Railway and drop off detachments at various stations en route.

They chose the strategic points such as Fengtai and Chang Yi Men and were in a position to control the shops, rolling stock concentrations and junction points of the Peiping-Mukden, Peiping-Hankow and Peiping-Suiyuan Railways. In addition they moved about a battalion each to Tientsin and Peiping. These operations were stated to be "maneuvers" but it was quite evident that they were sent as a threat that some sort of autonomous move would have to be successful. It is interesting to note that the reinforcements were troops of the Kuantung Army from Manchoukuo and did not belong to the Japanese Army Forces in North China whose duty it is to garrison Tientsin, Peiping and certain points on the railway from these points to Shanhaikwan under the Boxer Protocol.

After spending about two days at these stations checking rolling stock and otherwise making themselves officious, the Japanese detachments were withdrawn. One story is told that the Japanese had stated that in case of war they would have to occupy all the Chinese railways and that these maneuvers were for the purpose of practice!

There is no question but the "maneuvers" were intended to intimidate the Chinese officials of North China and Nanking and Japanese of authority announced that the autonomous government in the North while not inspired by the Japanese would receive their support in the interests of peace and order in the Far East in general and of the area adjacent to Manchoukuo in particular. Also it is considered likely that the fight over the budget in Japan has caused the Kuantung Army and others of the Japanese military to believe that a little show of force at this time would not be amiss. Certainly the Manchurian papers have been full of the failure of the Japanese Finance Minister to agree to the demands of the Army and Navy for an appropriation which is quoted here as being about sixty per cent of the total Japanese revenue.

The next few days saw everyone at loose ends in North China. The Japanese proclaimed that autonomy was present everywhere. They engineered a ludicrous uprising in Tientsin which was laughed down by the crowds; the instigators - who were paid twenty cents apiece - being taken by the Chinese police and their uniforms confiscated and returned to the Japanese authorities. Sung Che-yuan, the Commander of the 29th Army who has been left holding the sack in the North due to the intrigues of his subordinate, Hsiao Chen-ying, began to send frantic telegrams to Nanking. These asked for the announcement of a definite policy vis-a-vis Japan and carried Sung's resignation from the offered post as Pacification Commissioner of Hopei and Chahar. During this time no action of any kind was taken against Yin Ju-keng and his Eastern Hopei Anti-Communist Autonomous Council. Conditions in that area have been going the same as usual and train traffic between the so-called autonomous districts and the rest of Hopei remains normal.

On November 30th the National Government, in an effort to stem the tide of what might easily turn into virtual Japanese control of North China, ordered General Ho Ying-chin to Peiping. On the way he stopped at Kaifeng, arriving there on December 1st. The 2nd of the month saw him at Paotingfu for an interview with General Shang Chen, the Hopei Governor, and on the afternoon of December 3rd the Minister of War arrived in Peiping where he at once went into conference with Generals Sung Che-yuan and Hsiao Chen-ying.

Leaving Nanking on the same day as Ho but travelling by the Tientsin-Pukow line, Generals Chen Yi and Hsiung Shih-hui, Chairmen respectively of Fukien and Kiangsi provinces, made their way northward. Their first stop was Tsinanfu where they conversed with Han Fu-chu, Chairman of Shantung. On December 2nd they arrived in Tientsin and after seeing Chen Ke, the impotent Tientsin Mayor, they too arrived in Peiping on December 3rd.

Important officials now in Peiping include:

General Ho Ying-chin, Minister of War.
" Chen Yi, Chairman of Fukien.
" Hsiung Shih-hui, Chairman of Kiangsi.
" Sung Che-yuan, Commander of the 29th Army.
" Hsiao Chen-ying, chief negotiator with the Japanese and Chairman of Chahar.
" Chin Te-chun, Mayor of Peiping.

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The problem before these officials is to try to work out some plan which will save North China for the National Government. It is certain that the Japanese will demand more control over affairs in the North than they have had in the past. They have shown their hand and committed themselves to "support" of an autonomous regime in that area. Just what will satisfy them is of course not known. Reliable Chinese sources state that they require three points:

1. Recognition of Manchoukuo de facto.

2. Cooperation against the Communists (this of course would mean Japanese advisers with the Chinese Army and the eventual use of Chinese aid in preparation for a Russo-Japanese war).

3. Cooperation for the maintenance of peace and order in the Far East (this is purposely vague and would lead, the Japanese hope, to complete control of China's markets and economic resources by Japan).

The report is that should the Chinese agree to these points the Japanese will return to them the nominal control over the twenty-two hsien, now supposedly but not actually under the "Eastern Hopei Anti-Communist Autonomous Council". While it is impossible to confirm the three demands and the Japanese offer, the information comes from sources which have hitherto proved reliable.

With the arrival of General Ho in Peiping on December 3rd, the tenseness seems to have lessened somewhat, certainly in the minds of the Chinese officials. They envisage the formation of a branch of the Executive Yuan in North China with departments to handle civil, military, financial and other administrative functions for that area. They feel that some concessions must be made to the Japanese so that Doihara and others will not lose too much face.

Perhaps this may satisfy the Japanese and perhaps not. It is believed still that the Japanese do not desire another Manchurian incident with the expense and world publicity which it would cause. The Chinese think that while some of the junior officers of the Kuantung Army are ready for this, the Tokyo War Office is not prepared to strike in view of the financial condition of the country and the Russian menace in Siberia. They believe that the Japanese are trying to get control of affairs in the North as cheaply as possible and are trying to use the Chinese against each other to accomplish this end.

The vital question in North China now is what can General Ho Ying-chin and the galaxy of important Chinese officials now in conference in Peiping work out that will satisfy the Japanese? Will they dare to call the Japanese bluff or will they compromise and again bend the knee and bow to the east?

7. New Japanese Attache.

As this report is being written news has been received that Major T. Takahashi, the Assistant Military Attache of the Japanese Embassy in Peiping, will be replaced by Major S. Imai. Major Takahashi is stated to be going to the China Affairs Board in the Tokyo War Office. Major Imai has seen service in China before in Canton and Shanghai. He is said to speak Chinese and a little French.

It is understood that Major Takahashi is being relieved due to trouble between him and General Doihara. Apparently Takahashi and Doihara both wished to get the credit for delivering some sort of autonomy coup d'etat in Peiping. The former is stated to have claimed that he was the official spokesman there while Doihara's visit was unofficial. The latter is claimed to have said that his rank was greater than Takahashi's and therefore the affair should be run by him. Both are said to have reported the matter to Tokyo but the only answer received was the order for the transfer of Takahashi, who says that he expects to leave Peiping the last of December.

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No. 9251

Office of the Military Attache, American Embassy, Peiping, China, December 6, 1935 - To: Chief, Military Intelligence Division, Washington, D.C.

Approved.

Joseph W. Stilwell
Joseph W. Stilwell
Colonel, Infantry
Military Attache

6-1

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COMMENTS ON CURRENT EVENTS

November 9—22, 1935

RECEIVED G/2 W. D. DEC 20 1935

1. The National Government:
   Kuomintang Congress
2. Yunnan-Burma Boundary
3. Philippine Commonwealth
4. Radiophone Service to Japan
5. Assassination of Sun Chuan-fang
6. Mongols Protest to Nanking
7. Crisis in North China

1. The National Government:

Kuomintang Congress.

The Fifth Kuomintang Congress opened in Nanking on November 12th. Aside from the opening ceremonies, nothing was done that day. The first regular session was held on the morning of the 13th. More than a hundred members of the Central Executive Committee and over four hundred delegates to the Congress were present.

Many resolutions concerning the Kuomintang Constitution, political, economic, educational and military affairs were passed at the various sessions but all important matters were referred to committees or to the various Ministries for action.

As this report is being written it is understood that plans are made to elect the members of the Fifth Central Executive Committee and Supervisory Committee of the Kuomintang on the 22nd of this month.

Whatever may be going on behind the scenes it is evident that no matters of any importance have been passed by the Fifth Kuomintang Congress. With the Japanese pressure increasing in North China and the possible loss of at least administrative control over part of that area staring them in the face, the delegates have in true Chinese manner ignored the issue as far as official acts are concerned.

It is known that certain elements favor resistance to Japan and even joining with the Reds in the northwest for that purpose, but as far as can be ascertained no decision has been made and the possibility that such will be done in the near future appears slight. The Chinese dislike to make decisions and believe in inaction, traditionally convinced that situations solve themselves without requiring a decision if only time enough is allowed.

2. Yunnan-Burma Boundary.

The Chinese members of the Sino-British Commission to settle the question of the Yunnan-Burma boundary dispute have arrived in Hu Sa on the Yunnan border. According to information from Burma the British members of the Commission have arrived there and are awaiting Colonel Iselin of the Swiss Army who is the neutral member and Chairman appointed by the League of Nations. He is scheduled to appear about the middle of December. Chinese sources expect formal negotiations to begin next March.

3. Philippine Commonwealth.

The establishment of the Commonwealth in the Philippines has created a very favorable impression upon the educated Chinese in that they admire the gesture of the United States from a purely theoretical point of view. There is a very general feeling, particularly among the foreign educated Chinese, to the effect that the United States will not be able to withdraw completely at the end of ten years and that should such be done the Japanese will lose no time in moving to take our place.

Officials of the Nanking Government have stated in private conversations that they thought the Philippines might enjoy perhaps five years of independence after the United States turned them loose. Then some "incident" would be created in Davao where many Japanese live and Japan would follow her traditional policy and occupy the Islands as she has taken Chinese territory.

4. Radiophone Service to Japan.

Information from the Ministry of Communications indicates that a radiophone service will be established between Shanghai and Tokyo, and will be started as of February 15, 1936. This is confirmed by the Japanese Minister of Communications. The present plan is to charge fifteen yen or fifteen Chinese dollars for a three minute conversation.

5. Assassination of Sun Chuan-fang.

Marshal Sun Chuan-fang, former ruler of the five lower Yangtze provinces of Kiangsu, Kiangsi, Chekiang, Fukien and Anhwei, was assassinated on November 14th while attending Buddhist services in Tientsin. The assassin gave her name as Shih Chien-chiao, the daughter of Shih Tsung-pin, a former Shantung general who was executed by order of General Sun in 1924. Considerable Chinese opinion is to the effect that while as the eldest child of her father her feelings for revenge were quite natural, she was helped in her plan to kill Sun by certain politicians who feared that Sun Chuan-fang might appear again in public life as ruler in North China. It is believed that there is good reason for this opinion.

6. Mongols Protest to Nanking.

Following the ineffectual meeting of the Pailingmiao Council and the inability to find a solution to the dispute between Dorlchi of the West Oriat Banner (see G-2 Report No. 9235, item 7), several of the influential Mongols went to Nanking. These included Saiyinbaier or Pao Yueh-ching, as he is known in Chinese, who is the personal representative and trusted lieutenant of Prince Te, the Secretary of the Council.

One of the reasons for the Mongols going to Nanking was of course to protest against the actions of General Fu Tso-yi in keeping many of the Western Princes from attending the conference and his general interference in the administration of Mongol territory which the Nanking Government had promised to leave in the hands of the Mongolian Political Council. Their protest took the form of a blanket resignation of the whole Political Council which was refused. Another reason was the hope of Pao Yueh-ching and others that if they could only secure a proper hearing of their grievances they might settle once and for all with Chiang Kai-shek the question of Mongol autonomy.

It is known that the Japanese have been pressing Te Wang to sever relations with Nanking and this may be one last attempt on the part of the Mongols to secure some sort of support other than empty promises from the Nanking Government. It is the belief of this office that the Mongols cannot expect any help from Nanking at this time. The Nanking politicians have far too much on their minds with the tense Sino-Japanese situation in North China to worry about the Mongols and their hopes for autonomy.

7. Crisis in North China.

The Sino-Japanese situation has reached a condition of unprecedented obscurity. It is doubtful whether that much overworked word "obscure" has been used for many a day to cover such a multitude of sins as are present in the relations between these two nations at this time. Japanese pressure continues in North China and has secured the replacement of a number of officials whom the Japanese consider "insincere".

General Doihara, that bird of ill omen whose presence the Chinese fear as they would the plague, remains in the Peiping-Tientsin area. As far as can be ascertained no written demands have been presented to the Chinese since the last report, but Doihara is supposed to have demanded an autonomous government in North China and to have given the limit of three days for the completion of such a step. The Chinese have been delaying in every way possible hoping that Nanking would offer some solution to the problem.

Sung Che-yuan, who commands the 29th Army, is the person at whom the Japanese have been directing their main effort in the North. Hsiao Chen-ying, a subordinate of Sung, is the man who has been doing the negotiating with Doihara and General Tada, Japanese Commandant in Tientsin. It is known that Hsiao coveted the position of Mayor of Peiping (see G-2 Report No. 9235, item 6) but was appointed by Nanking as Chairman of Chahar. Chahar, however, already had an acting Chairman in the person of General Chang Tzu-chung, who was placed there when Sung Che-yuan was moved to Peiping. This made Hsiao lose a lot of face and kindled his hatred for Nanking. Hsiao imagines himself the man of the hour and continues his intrigues with the Japanese with the hope that he will come out on top of whatever shuffle is made in North China.

One instance of Hsiao's intrigues was the giving out of an interview to Chinese newspaper men on the afternoon of November 18th. This interview reviewed Hsiao's negotiations with the Japanese and told how Doihara had threatened to use the Japanese Army in North China if some sort of autonomous government were not established there to include Chahar, Suiyuan, Hopei, Shansi and Shantung. It gave great credit to Hsiao himself as being the savior of the North and acting in behalf of General Sung Che-yuan in trying to arrange for the autonomous government. This interview was wired to Shanghai by the Japanese several hours before it was given! Sure proof that Hsiao was hand in glove with the Japanese.

General Doihara is supposed to have presented four points which were as follows:

> "1. Japan was prepared to recognize China's sovereignty over the northern provinces (named above).
> "2. Japan was prepared to recognize China's territorial integrity.
> "3. Japan undertook not to interfere with internal Chinese civil affairs.
> "4. Autonomy and self rule in North China must be complete and absolute, although functioning under the Central Government at Nanking."

Hsiao stated also that he was fighting for time and that the Japanese proposals had not been accepted but that a meeting would soon take place to decide what should be done. As a matter of fact the Japanese had announced from Tokyo that despatches from Peiping indicated the establishment of an autonomous government effective November 20th. Local reports announced a meeting of Sung, Han Fu-chu and others to be held in Peiping.

Events followed thick and fast. It is too early to know the exact facts but from all available information it appears that for some reason the Japanese War Ministry in Tokyo advised their military personnel in China to watch their step. Confidential Chinese sources state that Chiang Kai-shek was advised of this and that he at once wired to all officials in North China to cease negotiations with the Japanese since the matter would be handled in Nanking.

The meeting which Doihara had arranged with Hsiao Chen-ying and at which Sung, Han, Hsu Yung-chang and others were supposed to attend did not take place. In other words the Japanese had a party planned but nobody came! Shang Chen wired from Paotingfu to say he was unable to move due to illness. Han Fu-chu never left Tsinan. Sung Che-yuan left Peiping for Tientsin by automobile and there was General Doihara sitting alone in Peiping with Major Takahashi, of the Military Attache's Office, trying to explain his way out of the affair.

Doihara left Peiping on November 20th for Tientsin and caught up with Sung Che-yuan late that same day. What was said is not known but persons who saw Doihara board the train for Tientsin state that he was in a fury.

It is quite likely that Doihara will try and talk General Tada, the Tientsin Commander, into some sort of action to save his face. It will be remembered that some days ago the Japanese announced that Doihara would be recalled to Japan to command a division and that he was making a personal visit to North China before leaving. It is believed that the Japanese Government sent him with instructions to see what could be done but not to create another Manchurian incident. They would have been willing to take advantage of whatever situation he might create but could point out that he was "unofficially" in North China if anything went wrong. Major Takahashi has been emphasizing the unofficial character of Doihara's visit ever since the latter left on the 20th.

As this report is being written it is evident that for the time being the setting up of an autonomous government in the North has fallen flat. There was never any desire for such a movement on the part of the Chinese except a few individuals like Hsiao Chen-ying who hoped for personal gain and revenge against Nanking because they did not receive political favors desired. For the moment it looks as though Chiang Kai-shek had called Doihara's bluff, and that the matter would be settled between Chiang and Mr. Ariyoshi, the Japanese Ambassador who has just gone to Nanking.

The question of Sino-Japanese relations in North China is far from settled by the dramatic incidents of the last two weeks. It is doubted that General Doihara will be content to lose face as he has without trying again to create an autonomous government in this area. It is quite possible that attempts will be made to have Shih Yu-san, Liu Kuei-tang and other bandit leaders cause trouble in the Demilitarized Zone necessitating stronger Japanese control in that area at least. Hsiao Chen-ying is known to have entertained Shih's representative at dinner on the 20th and Doihara is certain to try and cause disturbances from Tientsin as evidence that there is a real desire for autonomy.

If the Chinese story is true that Tokyo has directed her military men in North China to modify their methods, the activities of General Doihara may be circumscribed. This office has never thought that the Japanese Army desired to create a situation requiring military occupation of any of the present northern provinces but there is no doubt that they will continue to increase their influence there and try to force their desires for closer cooperation upon Nanking.

For and in the absence of the Military Attache:

S. V. Constant
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COMMENTS ON CURRENT EVENTS

December 21--January 3, 1936

RECEIVED G/2 W. D. JAN 29 1936

1. The National Government:
    Yunnan Currency
    Assassination of Tang Yu-jen
    Sino-Japanese Conference
2. Japan-Manchoukuo Postal Pact
3. New Chairman for Honan
4. The Tao-Ching Railway
5. International Loan for China?
6. Student Demonstrations
7. Takahashi's Last Venture
8. Situation in North China
9. North China Railway Administration

1. The National Government:

Yunnan Currency.

On December 21st the Ministry of Finance fixed the conversion rate of the Yunnan provincial paper notes into legal tender notes at $2 Yunnan currency to $1 legal tender note. It is interesting to recall that Yunnan is one of the few provinces that is still using its own currency and in which such currency is preferred to the notes of the Central Bank, the Bank of China or the Bank of Communications.

Assassination of Tang Yu-jen.

Tang Yu-jen, the newly appointed Vice-Minister of Communications and formerly Vice-Minister of Foreign Affairs, was assassinated near his residence in the Shanghai French Concession on December 25th. He was returning home after calling on Wang Ching-wei and about to enter his own home when he was fired on by two gunmen. He was rushed at once to the hospital but the doctors were unable to save him.

The assassination of Tang Yu-jen is supposed to be linked with the attempted murder of Wang Ching-wei, as both these men were active in what has been considered by the majority of the Chinese as a pro-Japanese policy on the part of the Foreign Office. Despite the rumors to the contrary, Tang is believed by this office to have been doing the best he could for China under difficult circumstances. He is known to have said confidentially that his being considered pro-Japanese by the Chinese press was an advantage for China as he was then able to get closer to the Japanese, and that he was convinced he could serve his country best by accepting the stigma of being "pro-Japanese".

Sino-Japanese Conference.

It has been reliably confirmed by sources close to the Nanking Government that the reports regarding Sino-Japanese diplomatic discussions for a fundamental readjustment of relations between the two countries will be held in the near future. The proposal is said to have come from the Chinese and that the Japanese have agreed in principle. The present plan is to have these conferences open about next February. The reaction of the Kuantung Army towards this move is not apparent as yet.

2. Japan-Manchoukuo Postal Pact.

On December 26th a postal treaty was signed in Hsinking between the Japanese and Manchoukuo governments. General Jiro Minami, the Japanese Ambassador to Manchoukuo, and Mr. Shigeru Kuno, Director of the Postal Affairs Bureau of the Japanese Ministry of Communications, signed on behalf of the Japanese Government, and Mr. Yasuaki Fujiwara (Japanese), the Director of the Bureau of Posts of the Manchoukuo Communications Department, signed for Manchoukuo.

The new treaty supersedes all previous postal agreements and takes effect one month after being signed. It consists of nineteen articles and an appendix, the text being in the "Manchoukuo" (really Chinese) and Japanese languages, the latter being the approved version in case of differences. This action on the part of Manchoukuo and Japan serves to place another activity in Manchuria more closely in line with Japanese procedure.

3. New Chairman for Honan.

In spite of his efforts to avoid the post, it is now certain that General Shang Chen has been prevailed upon to accept the Chairmanship of Honan Province. Following the change in political administration in Hopei Province wherein General Sung Che-yuan assumed control over that province and Shang Chen resigned, the latter applied to the National Government for leave with permission to visit the United States. He stated confidentially that he could not allow his name to be used in connection with the present regime in North China and that he would much prefer resigning all his positions. In this he is believed to have been sincere and really to have desired to make a long anticipated visit to the United States.

The National Government of course does not wish Shang Chen to go out of the country as Chiang Kai-shek has much faith in him and his 32nd Army. So the next move was to accept his resignation as Chairman of Hopei and appoint him as Chairman of Honan. Besides satisfying the internal political problem involved it places Shang Chen in a very strategic location on the Peiping-Hankow Railway and also gives him control of the Lunghai Railway. Such position places a very loyal buffer between Nanking and possible political or military developments in North China.

The present Chairman of Honan, Liu Chih, has been designated as Pacification Commissioner for Honan and Anhwei. Liu was one of Chiang Kai-shek's original commanders in his drive to the North some years ago and is unquestionably the Generalissimo's man. In view of this fact he was formerly given charge of the important province of Honan. Being one of Chiang's closest officials the finding of another position for him just at this time is not an outstanding political problem as he and Shang Chen will work well together.

4. The Tao-Ching Railway.

The Ministry of Railways announced on December 27th that the Tao-Ching Railway was to be incorporated under the management of the Peiping-Hankow line. The Tao-Ching Railway is located in the northern part of Honan Province and runs from Taokow to Chinghwachen. The junction with the Peiping-Hankow road is at Sinsiang.

At the present time the Tao-Ching line is important because it taps a good coal producing area and this was the reason for its construction. Recently there has been some talk of extending the railway to the northeast to some point near the junction of the Grand Canal and the Yellow River with the possibility of further extension to Tsinanfu in Shantung. Should this be done, the Tao-Ching Railway would assume new importance.

5. International Loan for China?

Press despatches from London still refer to plans for a silver buying syndicate and negotiations for an international loan to China. Japanese sources continue to connect the visit of Sir Frederick Leith-Ross with some such eventuality (see G-2 Report No. 9251, item 2), and consider that his arrival prompted Dr. H. H. Kung, the Chinese Finance Minister, to enunciate China's new financial policy. There is no information available here which would show that China has had her hands on any recent international loan.

6. Student Demonstrations.

The demonstrations of Peiping students which were directed against Japanese influence in the establishment of a new political setup in North China (see G-2 Report No. 9257, item 5), were followed by student demonstrations in other cities. Some of the students from the Peiping-Tientsin area tried to go by rail to Nanking. A body of Shanghai students seized a train and endeavored to drive it to Nanking.

As the result of these demonstrations, General Sung Che-yuan has declared that all the schools in Hopei Province shall start their winter vacation now instead of waiting until the proper time about three weeks hence. In Shanghai, Nanking and Hankow martial law was declared on December 26th and the police given special instructions as to what to do in case of further trouble.

In various large cities students have met, held discussions and presented resolutions and demands. The general impression in North China is that the demonstrations are on the wane and that the students would be glad to go back to school if their "face" could be saved properly. The present plans of the students contemplate the institution of a propaganda campaign throughout the country in an effort to stir up popular sentiment and force the Nanking Government to take some stronger stand against the increasing Japanese influence in North China.

7. Takahashi's Last Venture.

One of the last achievements of Major Takahashi, Assistant Military Attache of the Japanese Embassy in Peiping, before his relief and departure for Tokyo last week was the establishment of two newspapers in Peiping. These two papers are the "Hsin Hsing Pao" and the "Ya Chou Min Pao". The former is a small sheet but the latter is a regular sized newspaper. Confidential information is to the effect that the Peiping Municipality supports the Hsin Hsing Pao to the extent of five hundred local dollars per month and that the Hopei Provincial Government subsidizes the larger paper to the amount of one thousand.

The staff of these papers is composed of an element who will do as they are told because they owe their jobs to Japanese favor and the choice news is supplied by the Military Attache's Office of the Japanese Embassy. There is some question as to whether or not these papers will continue now that Major Takahashi has left Peiping. Takahashi was fully sold on the efficacy of the press but the views on this subject held by his successor, Major Imai, are not known.

The Japanese are stated to have agreed to step more softly in North China should these newspapers be established. Their line with the Chinese officials was that the papers could be used to better Sino-Japanese relations and that if the Chinese could be propagandized a little some stronger action by the Kuantung Army might be averted.

8. Situation in North China.

Since the formation of the Hopei-Chahar Political Council (see G-2 Report No. 9257, item 7) little has been accomplished. There is uncertainty as to whether or not the original slate of seventeen members will stand. The Japanese are known to desire the inclusion of Yin Ju-keng who broke into the news some weeks ago as head of the bogus "Eastern Hopei Anti-Communist Autonomous Council". Some other changes are rumored but to date nothing definite has appeared.

Chinese sources state that the Japanese wish the name of the Hopei-Chahar Political Council to contain some reference to "autonomous", and that if this is done Sung Cheyuan will be able to include under his control the entire eastern part of Hopei now nominally under Yin Ju-keng. Yin, by the way, changed the name of his "Council" to "Government" on December 26th, supposedly to emphasize its separation from other control.

With the unsettled situation in Hopei proper is coupled the peculiar state of affairs in Chahar and the effort of the Japanese to divorce the six "hsien" or districts north of Kalgan from Chinese control (see G-2 Report No. 9257, item 6). Apparently the Chinese are doing their best to negotiate with the Japanese but the Japanese seem to be loath to take any action. This is believed due to the absence of General Doihara who left Tientsin for Hsinking (Changchun) by airplane on December 26th. Perhaps his return may bring further information to light.

There have been rumors that Doihara may remove his headquarters from Mukden to Tientsin, others to the effect that he will replace Tada as commander of Japanese troops in North China, and still others that he will be appointed chief adviser to the Hopei-Chahar Political Council. Japanese sources deny that the latter is contemplated but state that General Doihara would not be averse to being the commander of the Japanese Garrison in North China. He then feels that he would have proper backing for his plans and would not stand any chance of having his intrigues fall through for failure of what he considers proper support.

Whatever may be the Japanese plans or Doihara's personal ambitions, it is safe to say that they hold no good for the Chinese. There has scarcely been a time in the varied history of Sino-Japanese relations when the Japanese have shown so little consideration for the code of diplomatic ethics which is supposed to be observed between nations as they now evidence. Their talk of sincerity has become a joke all over the Far East and has led to a new definition of the term "sincere" as applied to Chinese officials, who must follow the Japanese schoolboy definition of "sincere" - the trait of being "humble and obedient" - before the Japanese military will consent to deal with them.

9. North China Railway Administration.

Closely connected with the political changes in North China is the problem of railway management. Not only is this important from a military point of view but it is also important from a financial one since the revenues of the railways form an important part in any administrative budget. One of the first acts of Sung Che-yuan after the establishment of his new Political Council was to appoint Chen Chueh-sheng as Managing-Director of the Peiping-Liaoning Railway. Mr. Chen is originally from Fukien and has resided in Japan. He specialized in Economics in the Imperial University, Tokyo, and was in the Foreign Office of the old Peking Government. His brother is President of the Chinese Chamber of Commerce in Yokohama.

The appointment of Mr. Chen was made on Sung's own initiative and without the consent of the National Government. Yin Tung, the former head, was in Tsingtao on a vacation when Chen was appointed. For a time it looked as though the Nanking Government might oppose Sung's action but it finally confirmed it.

Another recent change has been the designation of Chang Wei-fan to head the Peiping-Suiyuan Railway. Since the start of Sung's regime in Peiping he has been Director of the Bureau of Public Safety in the Peiping Municipality. He is a Hopei man and was one of the old Kuominchun under Feng Yu-hsiang.

Realizing the futility of trying to oppose the actions of Sung in placing his own men in charge of the important and lucrative posts in the railway administration of North China, the Nanking authorities are endeavoring to use another method to hold what they have not already been forced to give up. This is evidenced by their sending Yen Te-ching to Shihchiachwang the last week in December. Mr. T. C. Yen, as he is known to foreigners, is the brother of Dr. W.W. Yen and is one of China's best American trained engineers. He is one of the outstanding men in the Chinese government service at the present time and if anyone can keep the Cheng-Tai Railway from Shihchiachwang to Taiyuanfu under Central Government control, T.C. Yen is the man. Nanking's move in sending Yen was to anticipate any action by Sung Che-yuan to control this important railway into Shansi.

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No. 9267 1st Ind. JWS:elh

Office of the Military Attache, American Embassy, Peiping, China, January 3, 1936 - To: Chief, Military Intelligence Division, Washington, D.C.

Approved.

Joseph W. Stilwell,
Joseph W. Stilwell
Colonel, Infantry
Military Attache

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COMMENTS ON CURRENT EVENTS

January 4 - 17, 1936

RECEIVED G/2 W. D. FEB 12 1936

1. The National Government:
    Feng Yu-hsiang Takes Office
    New Bond Issue
    Communications Vice-Minister Appointed.
2. Death of Dr. V. K. Ting
3. New Japanese Ambassador
4. Soviet Military Preparations
5. British Agent
6. Japan and Inner Mongolia
7. Japanese Activities in North China

1. The National Government:

Feng Yu-hsiang Takes Office.

One of the recent appointments which caused considerable surprise throughout the country was the naming of General Feng Yu-hsiang as Vice-Chairman of the National Military Council. Feng became famous under the title of the "Christian General" when as leader of the old Kuominchun or People's Army he baptized his soldiers by companies. Since he was forced out of power in North China several years ago he has been living on Tai Shan, the sacred mountain of Shantung (see G-2 Report No. 9108, item 5), under the protection of Han Fu-chu, one of his former regimental commanders.

Always an outspoken advocate of resistance against the Japanese, Feng has said many times that he would accept public office again only in the event that China would take up arms against Japan. Much to the surprise of all he went to Nanking to attend the recent session of the Kuomintang Congress, remained there and was appointed Vice-Chairman of the Military Committee. He was sworn into office on January 6th.

Many have taken this as an indication that the Nanking Government would adopt a policy of armed resistance to Japanese aggression. As mentioned before there is much support for the policy of defense along the Lunghai Railway and resistance to Japan should she come that far to the south. This is believed to be a typical Chinese reaction, however, of evading the issue, as there is no evidence that Japan has any intention of moving an army in the direction of the Lunghai Railway or in fact even putting a military force of any size into North China.

New Bond Issue.

The Ministry of Railways is making arrangements to float a loan of $16,000,000 silver based on the security of

$27,000,000 worth of Railway Construction Loan Bonds, the issue of which has just been approved by the Executive Yuan. The plan is to secure half of the amount from a Chinese banking syndicate headed by the Bank of China. The remainder is expected to be secured in railway building materials either from British or German sources.

According to railway officials the money will be used for the continuation of the Hangchow-Nanchang line to Pinghsiang, the Yushan-Nanchang section of which was opened on January 15th. If the railway were extended from Nanchang to Pinghsiang, it would connect with the northern section of the Canton-Hankow line by means of the Pinghsiang Colliery branch.

Communications Vice-Minister Appointed.

Mr. Peng Hsueh-pei, former director of the political affairs section of the Executive Yuan, has been appointed Administrative Vice-President of Communications to succeed Tang Yu-jen, who was assassinated in Shanghai on December 25, 1935 (see G-2 Report No. 9267, item 1). Peng Hsueh-pei has never been prominent in public life before. He is a member of the Kuomintang. Prior to his appointment, the place was filled concurrently by Yu Fei-peng, the other Vice-Minister of Communications who was formerly prominent as the head of the Communications Section of Chiang Kai-shek's headquarters.

2. Death of Dr. V. K. Ting.

Dr. Ting Wen-chiang, or Dr. V. K. Ting as he was generally called in the foreign press, died in Changsha, Hunan, on January 6th. The cause of his death is stated to have been the results of carbon monoxide poisoning which he was subjected to during the inspection of a coal mine last December.

Dr. Ting received his Bachelor of Science degree from the University of Glasgow where he specialized in geology. In 1913 he was appointed head of the Chinese Geological Survey and later was connected with the Peiping National University. He served for three years as Mayor of Greater Shanghai. He was a noted geologist and his work as Secretary-General of the National Research Academy in Nanking, which post he most recently held, has been noteworthy.

3. New Japanese Ambassador.

Japanese press advices from Tokyo state that Mr. Hachiro Arita, late Japanese Ambassador to Belgium who arrived in Japan on January 10th, would be appointed Japanese Ambassador to China in place of Mr. Ariyoshi, who is expected to retire in the near future.

4. Soviet Military Preparations.

Considerable interest has been displayed at the press despatches from Moscow under date of January 10th to the effect that Molotov has demanded an increase in the military budget because of the Japanese and German "menace". He is also quoted as saying that Japan's warlike temper was evidenced by her refusal to sign a non-aggression pact and to accept a commission to mediate the continued incidents arising along the Russian-Manchoukuo border.

The Chinese look at these statements with the vain hope that an early Russo-Japanese war would stop Japanese aggression in North China and Inner Mongolia. That the Japanese are fully determined to be prepared in the event of such conflict is shown by their extension of influence into Chahar in their endeavor to make their south flank secure in case of a Soviet drive from Urga.

5. British Agent.

News has been received from the British authorities in India to the effect that Sir Eric Teichman, Chinese Counsellor of the British Embassy in Peiping, arrived at Gilgit on January 8th. This was the last stage of his journey which took him from Peiping to Kashmir via Hami, Urumchi, Kashgar and the Karakoram mountains (see G-2 Report No. 9209, item 5). He is expected to go from Gilgit to Delhi by air and the Viceroy's Avro plane has been sent to get him.

In view of the statements current in Peiping to the effect that Sir Eric's trip was a personal venture (see G-2 Report No. 9251, item 4), it is interesting to note in a Reuter's despatch that "Sir Eric will write a report on recent developments in Sinkiang, especially on the growth of Soviet influence, which is seriously hitting British and Indian trade". As previously stated, the real reason for his trip was to give authentic information regarding the "Back Door to India" which has been a thorn in the side of the British lion for many a year.

6. Japan and Inner Mongolia.

Conditions in Inner Mongolia are going from bad to worse and the Japanese show no signs of lessening their pressure in that area. Seemingly without any attempt to justify their actions, they instructed General Li Shou-hsin some days ago to move with part of his troops from Dolonnor toward Kuyuan. Li, it will be remembered, is in command of a "Manchoukuo" division which occupied Dolonnor in eastern Chahar nearly two years ago.

At the present time Li's troops with Japanese staff officers have occupied Kuyuan and advanced to Changpei, about forty miles north of Kalgan (Chang Chia K'ou). Here they have set up an administrative office from which they issue instructions under the date of "K'ang Te, San Nien" - in other words the third year of the reign of the Emperor of Manchoukuo!

After ineffectual resistance at Kuyuan and none in other places the few poor remnants of Chinese "Pao An Tui" - Peace Preservation Troops - fled inside the Great Wall. When this happened the Mongols gathered together a few thousand Chahar Banner troops and took over the policing of four of the six "hsien" or districts north of Kalgan (see G-2 Report No.

9257, item 6 and map). They were "advised" to do this by the Japanese military mission which has been set up at the Palace of Prince Te. Prince Te is the Te Wang of Pailingmiao fame who is Secretary of the Mongolian Political Council and the most able man in Inner Mongolia.

Nominally these troops of the Twelve Chahar Banners are under Joddajab or Chou Shih-Hai as he is known in Chinese (see G-2 Report No. 9257, item 6), and they will be found in the six "hsien" above mentioned except Kuyuan and Changpei where Li's "Manchoukuo" forces are located. The Mongol Banner troops are not operating with Li's men in any sense of the word but are acting as police. They have no intention of moving against Suiyuan as stated in the press, and for the moment Li's troops have evidenced no desire to advance from their present locations.

Confidential information from very reliable Mongol sources is to the effect that a conference is now in progress at Changpei. It may be stated here that Changpei town is in Changpei "hsien" or district and the two are used interchangeably as towns in Mongolia are a collection of "yurts" which may and do change location from time to time. The conference is between Te Wang and representatives of "Manchoukuo" and Japanese staff officers, including Colonel Tanaka from Hsinking. These latter have offered to place Te Wang in charge of Li Shouhsin's forces and to give him control of all of Chahar Province north of the Great Wall.

The Mongols, convinced that Chiang Kai-shek will give them no help against the Japanese, are considering this offer. They think, however, that perhaps the Japanese no longer want Li's men and are trying to pass them off in this manner. Also Te Wang is doubtful whether he could control Li and his soldiers should he accept them and they turn against him. So Te Wang has given secret instructions to strengthen the Banner troops and has sent trusted officials to China to purchase new saddles and equipment for his men of the East and West Sunnit Banners - the ones which he directly controls.

Sung Che-yuan in Peiping is making a last effort to hold the Mongols. On what authority no one knows, he has offered to make Te Wang the "Peace Preservation Commander" of Chahar Province. General Pao Yueh-ching, Prince Te's representative in Peiping, left for Changpei on January 15th to convey Sung's offer. It seems doubtful that there is any chance of its being accepted. The Mongols are afraid to trust Sung much though he was their only friend when he was Chairman of Chahar. They have completely lost faith in Chiang Kai-shek due to his announced policy of leaving Mongol affairs in the hands of Fu Tso-yi of Suiyuan.

This policy of Chiang's has destroyed the confidence of the Mongols in the Nanking Government since Fu, and of course Yen Hsi-shan of Shansi who controls him, have both been acting against the Pailingmiao Council. They have tried in every way, as previously reported, to break up Mongol unity by conspiracies with various unscrupulous Mongols such as the Dorlchi of the West Oriat Banner (see G-2 Report No. 9235, item 7) to keep the proper percentage of the opium tax from reaching the Council.

Certainly history is being made in Inner Mongolia these days and what may come of the Changpei conference is impossible to predict. It is safe to say, however, that eastern Inner Mongolia has slipped from the fingers of Nanking Government control and there seems no prospect that such can be re-established there. The worst feature of it all is that the Mongols of that territory who have tried for so long to keep with the Chinese have been cut adrift by Chiang's policy and pushed into the arms of the Japanese. Te Wang is known to have been willing to resist Japanese aggression but the Chinese refused to allow arms and ammunition to get in the hands of the Mongols and of course the present policy of Nanking seems to be to "hold on the line of the Lunghai Railway", knowing well enough that the Japanese will not move troops to that sector.

7. Japanese Activities in North China.

The situation in North China continues to be the vital question in this part of the world and there can be no doubt that that place will be the most important section of the Far East for some time to come. The National Government may function between Nanking and Shanghai but the fate of China and perhaps of Asia is being enacted in the Peiping-Tientsin area.

Poor old Sung Che-yuan is proving inadequate to handle the devious domestic and international tangle into which he was dragged by his ambitious henchman, Hsiao Chen-ying. He has accepted the position of Pacification Commissioner of Hopei and Chahar and has placed his own 29th Army officials in the various positions in the area he controls. Most of them are second grade men who have had only inferior military training and but little of that. He is trying to carry on but is not clever enough to deal with the Japanese nor crooked enough to be willing to throw over his Chinese ideas of administering affairs and do as the Japanese tell him. He left for Tientsin on January 14th and has stated that he would not return until after the Chinese New Year - January 24th.

The Sino-Japanese negotiations which came to a standstill with the departure of General Doihara for Hsinking on December 26th seem about to be reopened. Doihara returned to Tientsin on January 12th and at once things began to happen and other Japanese of importance began to appear like vultures gathering for the feast.

General Seishiro Itagaki, Vice-Chief of Staff and commonly known as the brains of the Kuantung Army, flew down from Manchuria by plane. General Kensuke Isogai, Japanese Military Attache in Shanghai, has come by boat to Tsingtao and was stated to be waiting there for Itagaki. Not to be outdone by the military, the civil side of Japanese officialdom is represented by Mr. Ohashi, the dapper little Japanese who is the Vice-Minister of Foreign Affairs of "Manchoukuo". He appeared on the scene more quietly than did the military officials but he has been none the less active, visiting Peiping, Tientsin, Taiyuanfu and Tungchow.

It is known that Itagaki flew to Tsingtao to see Isogai and that one or both of them saw Han Fu-chu, the Chairman of Shantung. Ohashi also has had an interview with Han. The Chinese look with much concern upon these facts as they believe that they forecast Japanese pressure being applied to Shantung Province as well as Hopei. They fear Ohashi's visit to Taiyuanfu to see Yen Hsi-shan in this same light, particularly as Itagaki also is scheduled to visit Yen. Itagaki made a special trip to Tungchow, accompanied by Major Imai, Assistant Military Attache in Peiping, especially to see Yin Ju-keng, head of the bogus "Eastern Hopei Government".

Having made a preliminary reconnaissance it appears that the Japanese are about ready to issue another order. General Itagaki has returned to Tientsin and conferences are now taking place. It is expected that Doihara, Tada, Itagaki, and lesser lights will decide upon a course of action which will be presented to the Chinese.

General Sung Che-yuan, Hsiao Chen-ying, his main adviser who is now Mayor of Tientsin, and possibly Chin Te-chun, the Peiping Mayor, are the Chinese who will hear what the Japanese have to offer. Since Hsiao failed to deliver North China as autonomously as the Japanese wanted, it appears that their recent activities in sending all sorts of high ranking officers to travel and interview persons in Hopei, Shantung and Shansi, all aim to do what Doihara started to accomplish - the divorce of Hopei, Shantung, Shansi and Suiyuan from Nanking's control. Chahar has been virtually torn loose from China and Suiyuan will fall whichever way goes Shansi. If the Japanese succeed they will have the five northern provinces under their influence.

Evidences of this influence are appearing in Peiping. Two Japanese cafes have been opened within a stone's throw of the Legation Quarter. Four large Chinese hotels have been rented and opened as public gambling dens where one may gamble, smoke opium, or obtain any other sort of drug desired. Chinese drug peddlers operating under Japanese protection in Tangku near Tientsin caused another "incident" resulting in the calling in of Japanese troops to Tangku.

Another "incident" occurred at one of the Peiping gates which had been closed at dark and which Japanese demanded be opened for them. Objecting to the slowness of the gatekeeper, one Japanese fired a shot at him as he ran up the ramp of the wall, and later returned demanding that the Chinese sign a paper stating that no such affair had taken place! These are but straws but give an indication of which way the wind blows and it is hard to see how this wind can blow much of good for the Chinese, except those who are willing to accept Japanese dictates for the personal profit that may accrue to them.

As this report is being prepared Sung Che-yuan has seen General Doihara and General Itagaki in preliminary negotiations where it is known that the eastern Chahar question has been discussed as well as the problem of Yin Ju-keng's bogus "Eastern Hopei Anti-Communist Autonomous Government". It is the general impression that some scheme will be worked out whereby Yin's so called government will be amalgamated with the Hopei-Chahar Political Council under Sung Che-yuan for the present. Judging from indications and the temper of the Japanese it is safe to say that Sung's regime may not last for long. Should this be the case it is possible that Yin Ju-keng will be the most likely contender for the doubtful honor of trying to fit the sections together in the Chinese puzzle existing in North China, made doubly hard by the persistent efforts of the Japanese to disarrange the pieces.

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Office of the Military Attache, American Embassy, Peiping, China, January 17, 1936 - To: Chief, Military Intelligence Division, Washington, D.C.

Approved.

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Colonel, Infantry
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FEB 25 1936
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COMMENTS ON CURRENT EVENTS

January 18 - 31, 1936

RECEIVED G/2 W. D. FEB 25 1936

1. The National Government:
    - Sino-Malayan Postal Pact
    - Chiang Talks to Students
    - Chinese Ambassador to Italy
    - New Ambassador to Japan
2. Hu Han-min Returns
3. Sir Frederick Leith-Ross
4. Japanese Purchase Newspaper
5. German Economic Mission
6. Japanese Efforts in Shansi
7. Inner Mongolia
8. North China Situation

1. The National Government:

Sino-Malayan Postal Pact.

On January 17th the Legislative Yuan approved the draft of the Sino-Malayan Postal Agreement together with rules for its enforcement. There is no political significance in this pact but it will facilitate the handling of mail between the parties concerned.

Chiang Talks to Students.

As the result of student demonstrations in many of the large cities against the policy of the Nanking Government vis-a-vis Japanese aggression in North China, General Chiang Kai-shek invited a number of educators and student representatives to Nanking to hear his explanation of the present policies of the National Government. When they arrived they were taken sightseeing over Nanking and propagandized as much as possible before he talked to them.

It is understood that the speech made by Chiang was subject to strict censorship and it is believed that this is the case. Had this not been true, the high sounding generalities which appeared in the press were certainly not the kind of talk to satisfy the audience which left Nanking apparently inarticulate except with praise for the way in which they had been treated.

Chinese Ambassador to Italy.

Mr. Liu Wen-tao, Chinese Ambassador to Italy, arrived in Hongkong on January 19th on the same steamer with Hu Han-min. Mr. Liu was formerly Mayor of Hankow and served in Germany before his appointment as Ambassador to Italy. He is a staunch supporter of Chiang Kai-shek. The fact that he returned at the same time as Hu Han-min is not considered to have any political significance.

New Ambassador to Japan.

Mr. Hsu Shih-ying, Director of the National Famine Relief Commission, has been appointed Ambassador to Japan in place of General Chiang Tso-pin. Mr. Hsu is a native of Chiupu, Anhwei Province. He has been Minister of Justice, Minister of Communications, Civil Governor of Anhwei and Minister of Finance under former Chinese administrations. He was a member of the old Anfu (pro-Japanese) party which flourished some years ago in North China under Tuan Chi-jui.

2. Hu Han-min Returns.

Hu Han-min, the veteran Kuomintang leader who went to Europe some months ago (see G-2 Report No. 9145, item 3) arrived in Hongkong on January 19th. Hu it will be remembered was once President of the Legislative Yuan in Nanking and after a disagreement with Chiang Kai-shek was kept a virtual prisoner there for about a year. He was then allowed to go to Hongkong where he lived behind barbed wire and Sikh guards until his recent European journey.

Now that Wang Ching-wei is out of public life at least for the present due to his illness as the result of attempted assassination, it is possible that Hu Han-min may return to the stage of Chinese politics. This of course can be accomplished provided he can be reconciled to his treatment at the hands of the Generalissimo. Both Wang and Hu are able men and powerful in the Kuomintang but they are great personal enemies and when one is on the other is definitely off the political stage.

Whether Hu will assume office under Chiang again remains to be seen. His first interview stated in part, "The Kuomintang needs strengthening. Dissension in the ranks of the Party is disastrous. Unity must be upheld and a strong government, which will assume full responsibility for the affairs of the state and having a definite policy to follow, must be established. We must continue our struggle for the regeneration of our country".

These statements would seem to be a criticism of the present policy of Chiang Kai-shek vis-a-vis Japan and certainly Hu's remarks regarding strengthening the Kuomintang will be looked on with violent disfavor by the Japanese. So far no word has been heard from Japanese sources regarding Hu Han-min's return to China.

3. Sir Frederick Leith-Ross.

After spending some time in Nanking and Shanghai, Sir Frederick Leith-Ross, Economic Adviser to the British Government (see G-2 Reports Nos. 9251, item 2; 9235, item 2; 9209, item 2), went up the Yangtze River to Hankow and by airplane to Chungking, Szechwan Province, where he arrived on January 20th. He sailed for Ichang on the 21st by steamer. He plans to spend about two weeks in investigating economic conditions in Szechwan and to leave for Changsha, Hunan Province, on February 1st.

Since his remark to the effect that he saw no evidences of a desire for autonomy in North China, Sir Frederick has kept his own counsel. His presence in China is causing the Japanese a great deal of worry but no one else appears to place great significance in his visit.

4. Japanese Purchase Newspaper.

The Japanese have about completed negotiations for the purchase of the Yung Pao, one of the large Chinese newspapers in Tientsin. The Yung Pao plant is in the French Concession. According to information from Chinese sources, the Japanese have offered $400,000 local currency for the enterprise but whether this is the actual price cannot be determined.

With increasing efforts on the part of the Japanese to influence North China it is only to be expected that the press will be watched carefully. Several Chinese papers have been called to account for their handling of current news and the Ta Kung Pao, one of the best and most influential of the Tientsin sheets, is making plans to move to Shanghai this spring in order to get away from possible Japanese interference.

5. German Economic Mission.

Dr. Otto Kiep and Mr. Rosenburg, members of the German Economic Mission to the Far East, have arrived in China and reached Nanking on January 22nd. They at once gave out a written statement to the press in which they said in part: "Besides studying economic conditions in the countries visited with a view to informing and advising German interests at home accordingly, the mission desires to render service to trade circles in general by explaining and interpreting the present organization of German foreign trade under the 'new plan' of Dr. Hjalmar Schacht, Governor of the Central Bank of Germany."

The German mission has been in Japan and Manchuria and after visiting the chief commercial centers of China plans to continue its investigations in Siam and other countries of Eastern Asia. As noted in previous reports, the Germans are endeavoring to establish themselves as firmly as possible in a commercial way in China before Japanese influence grows too strong in the Far East. On the whole the Chinese are inclined to favor German goods and the relations between German and Chinese business men are generally satisfactory, according to the Chinese.

6. Japanese Efforts in Shansi.

General Doihara, that well known bird of ill omen for the Chinese, arrived in Taiyuanfu, Shansi, at noon on January 27th by airplane. His appearance will no doubt increase the activity of the Japanese "military mission" which has been established in Taiyuanfu by the authorities of the Kuantung Army. The five officers of this mission have been making things uncomfortable for Yen Hsi-shan for the last few days by calling on him each day with suggestions for joining an "autonomous" move in North China.

Yen, according to Chinese sources, is doing his best to stand off Japanese pressure and would seem to have been successful so far. At least the trip of General Doihara is believed to be in the way of reinforcing the arguments of the Kuantung Army officers.

Yen has notified the Nanking Government of the Japanese actions and has asked for a special representative whose duty it will be to deal with the Japanese. He is stated to have requested Dr. Cheng Hsi-keng, who is representing the Foreign Office in Peiping, but rumor has it that Mr. Pan Lien-ju will be asked to take on the difficult duty. Pan is one of Yen Hsi-shan's men and was his secretary for several years.

No official reports have appeared regarding this particular situation in Shansi up to the writing of this report. No action has been taken by Nanking in appointing a representative in Shansi to deal with the Japanese "mission" there.

7. Inner Mongolia.

The situation in Inner Mongolia grows more complicated daily. Following the advance to Kuyuan and Changpei of the Manchoukuo troops under Li Shou-hsin and a Japanese staff, the majority of the Chinese "Pao An Tui" or Peace Preservation troops returned inside the Great Wall. Their place was taken by the Banner Troops of the Twelve Chahar Banners, which while actually under their own Princes are nominally under Joddajab, known to the Chinese as Cho Shih-hai (see G-2 Report No. 9279, item 6).

No news has come from the conferences being held at Changpei between Te Wang, the Prince of West Silingol Banner, and representatives of Manchoukuo and Japanese staff officers. An influential Mongol leader by the name of Nimangetehsoerh was taken from a bus between Changpei and Kalgan and shot as soon as he informed the soldiers of his name. No other members of the party were molested so it is evident that he was the sole object of the attack. The man were dressed in the uniform of the Chinese "Pao An Tui" and the incident took place just north of Kalgan before the territory now policed by Mongols was reached. The man who was assassinated was the assistant to Joddajab and the Mongols think the Chinese in Chahar were taking vengeance due to the growing power of the Mongols in territory taken from them and colonized by Chinese.

As noted in the last report, there is no evidence that anyone in Chahar is preparing to advance into Suiyuan, but Yen Hsi-shan and Fu Tso-yi are preparing for trouble along the Suiyuan-Chahar border. The Nanking Government has made the situation worse by the appointment of a new Political Council for the western Mongols.

According to reports from Nanking this Council will include the Banners of the Yeghejo League in the Ordos and the Olanchab League of Suiyuan Province. This includes five of the Chahar Banners, four military and one herdsman banner, which have been considered part of Suiyuan Province on the map for some years but which have always been administered under Chahar. It also includes Pailingmiao, the location of the Mongolian Political Council. For some unknown reason the Pailingmiao Council which was inaugurated by Nanking has never been mentioned. Considerable doubt exists in the minds of the Mongols as to what this move on the part of the Chinese Government means. Will the first Mongolian Political Council (Meng-Cheng Hui) be dissolved by the new order? Is it noticed that Te Wang and the other officials have been cut loose by the Central Government?

The chances are that the new council is the work of Fu Tso-yi and the dissatisfied western Mongols who have been at outs with the Yun Wang and the Te Wang, President and Secretary respectively of the Pailingmiao Council, ever since the trouble over the opium tax resulting from the intrigues of Fu's officials with the Dorlchi or Shih Wang of the West Oriat Banner (see G-2 Report No. 9235, item 7).

In answer to the latest move on the part of Nanking in setting up another Mongolian Political Council, or rather the lack of action on their part which allowed Fu Tso-yi and his cohorts to force this scheme on Chiang Kai-shek, the original Mongolian Political Council of Pailingmiao origin has published a new order. This order establishes the Twelve Banners of Chahar into a new League with Joddajab or Cho Shih-hai as the head. This new organization known as the Chahar League will of course take in the five Chahar Banners mentioned before in this report which by Nanking's order have been included in Suiyuan although by history and administration are really under Chahar.

It is difficult to see how Nanking could have done a more stupid thing in their relations with the Mongols than to establish a new council for the Suiyuan Banners on top of the original Mongolian Political Council which they helped set up at Pailingmiao. It breaks every tie that the Chahar Mongols ever had with Nanking and pushes them further into the arms of the Japanese. The Mongols, the older ones such as Yun Wang, President of the Pailingmiao Council, and the younger officials headed by Te Wang, the Secretary of the original Council, are equally disgusted at the action of Chiang Kai-shek and his attitude of leaving Mongol questions in the hands of Fu Tso-yi, who has been an active enemy of Mongol unity for years.

Perhaps the Nanking officials realize that by their own activity they have lost Chahar and are trying to save their face. This office believes that the Mongols in Chahar were ready and willing to resist the advance of Li's Manchoukuo troops and their Japanese staff had Chiang Kai-shek shown any indication of assisting such resistance. Now the Mongols are faced with the occupation of Kuyuan and Changpei by Japanese direction and they see no hope of achieving Mongol unity. Their aims have been not only spoiled by Japanese actions but their last hope has been dashed by Nanking's appointment of another Mongol Council, thus breaking the very unity of Mongol Banners which they pledged to uphold when the Generalissimo proclaimed the first Pailingmiao Mongolian Political Council.

The future for the Mongols is not bright. Abandoned by the Chinese Government they have been caught by the Japanese octopus whose predatory tentacles have been stretching further westward ever since the Mukden Incident of September 1931. So far there is no evidence that Te Wang and the other prominent Princes have willingly yielded to Japanese pressure in any way nor that they have cooperated with Li Shou-hsin, whom they distrust and consider a rascal.

The Japanese are trying to get Te Wang to take over Li's forces as previously reported, but he is unwilling to do this until he can organize his own Mongols under Joddajab so that he can successfully handle Li's men if occasion arises. So far the Japanese have used more tact in handling the Mongols than is their usual characteristic method. Perhaps they have learned their lesson from handling Manchurian Mongols but the next few months may be expected to tell the tale.

8. North China Situation.

The advent of the Chinese New Year on January 24th according to the lunar calendar has helped to slow down for the present the momentum of the political situation in North China. Despite the fact that officially China follows the foreign calendar, the old customs never die out and China continues to celebrate the Lunar New Year. Sung Che-yuan being the old fashioned type of official, there were none of the prohibitive regulations regarding the use of firecrackers and other marks of the usual New Year celebrations so loved by the Chinese people.

Even the Japanese apparently decided that it was useless to expect much results from negotiations during the holiday season and so conditions in the Peiping-Tientsin area have been relatively quiescent for the past ten days. According to Chinese officials there has been no change in the situation vis-a-vis Yin Ju-keng's "Government" in the Demilitarized Zone nor with regard to conditions in Chahar.

Chinese sources state that a tentative agreement has been reached between Sung and Yin whereby the latter will receive $250,000 from the Salt Revenue and $100,000 from the Peiping-Liaoning Railway each month. Even should this be the case no mention has been made as to just how the Japanese will permit Yin and his Demilitarized Zone to be amalgamated with the administration of the remainder of Hopei Province under Sung Che-yuan. Perhaps this will be cleared up when the holidays are over and the Japanese put on the screws once more.

Possibly the Japanese are going slowly in the North as the result of General Isogai's visit to Chiang Kai-shek. It will be remembered that Isogai, the Military Attache in Shanghai, visited Tsingtao some days ago (see G-2 Report No. 9279, item 7) and after a conference with General Itagaki of the Kuantung Army returned to the South. According to Japanese press reports, Isogai then went to Nanking as just mentioned and saw the Generalissimo. The Chinese are inarticulate as to what took place but the Japanese quote Isogai as follows:

"I discussed the question of adjusting Sino-Japanese relations fully and frankly with General Chiang. He told me that he became Chairman of the Executive Council in order to make efforts for the improvement of relations between the two countries. General Chiang impressed me that he has comprehended Japan's position and that he intends to exert every effort for the improvement of Sino-Japanese relations."

The Japanese Military Attache left for Japan on January 30th to report to the Japanese War Office on conditions in China. Before leaving he saw the Minister of Foreign Affairs and the Minister of War, in addition to Chiang Kai-shek. These facts just discussed may help to account for the apparent lull in Japanese activity in North China, even more than the Chinese New Year!

The Japanese press has not ceased its barrage of propaganda even though the officials seem to be stepping more quietly than usual, and its articles on economic development of North China are worthy of note. One of them mentions continually the economic bloc to be formed by Japan, Manchoukuo and North China which is the plan of the Tokyo Foreign Office.

The Japanese are as good a source as any to estimate what their plans for North China may be and these have been given in their papers as including the following:

(1) Improvement of agricultural products under Japanese technical guidance with a view to profitable exchange of these products for Japanese manufactured articles.

(2) Exploitation of mines in that area with Japanese technical and financial aid. This will include no doubt such areas as the Lungkow-Chefoo coal deposits and the well known anthracite mines of Shansi.

(3) Development of communications and transportation system of the North with Japanese assistance. Prominent in this may well be the building of a railway from Tsangchow on the Tientsin-Pukow Railway to Shihchiachuang on the Peiping-Hankow line. This would not only give the Japanese more ready access to the Shansi coal but would give them, with the line now running from Shihchiachuang to Taiyuanfu, another railway parallel to the Peiping-Suiyuan road. This is an alternate route to Inner Mongolia by going north from Taiyuan over the pass to Tatungfu in northern Shansi via what is one of the most modern motor roads in China.

(4) Establishment of organizations for the promotion of Sino-Japanese trade. A start in this direction has already been made both in the North and in Shanghai and several missions of Chinese business men and bankers have visited Japan.

(5) Revision of the customs tariff and the restoration of the system of tariff by agreement. What the Japanese want of course is preferential duties on Japanese goods of all kinds.

The Japanese are quite frank in their statements that they desire improvement of cotton production and a better system of wool production which will fit the requirements of the Japanese market. Their plans for the area in an agricultural way will see to it that certain required raw materials are supplied for the Japanese. In other words, North China is to be made to do just what the Japanese wish for the benefit of the Japanese first and last, if the Japanese have any say in the matter and it looks as though they are saying more and more each day.

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Office of the Military Attache, American Embassy, Peiping, China, January 31, 1936 - To: Chief, Military Intelligence Division, Washington, D. C.

Approved.

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COMMENTS ON CURRENT EVENTS

February 1--14, 1936

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1. The National Government:
    - Nanking Floats Loans
    - Simplified Chinese Characters
2. Diplomatic Changes
3. Sino-Japanese Trade Council
4. Manchoukuo-Outer Mongolia Border
5. North China Icebound
6. Nanking Blunders in Inner Mongolia
7. Japan and North China

1. The National Government:

Nanking Floats Loans.

The Nanking Government has announced that due to the decrease in the Customs revenue, which is insufficient to meet the interest due on domestic bonds, and also to protect the public money and uphold the credit on government bonds, a new issue will be floated. This will be known as the Consolidated Loan and will be for the purpose of funding all outstanding domestic bonds. The amount of the new issue is estimated at $1,460,000,000, which will bear six per cent interest and will be secured on the same customs revenues as the issues to be funded. Redemption will be grouped into classes of twelve, fifteen, eighteen, twenty-one and twenty-five year periods. Drawings for redemption of part of the bonds will be held every half year.

In addition to the above loan the Government plans to issue a new Recovery Loan for the announced purpose of assisting the new monetary policy (see G-2 Report No. 9235, item 2), stimulating native industry as well as balancing the national budget. The Recovery Loan will be for $340,000,000 and will bear interest at five or six per cent. It will be redeemed in twenty-four years according to present plans, and drawings will be held every six months as in the case of the Consolidated Loan.

According to foreign financial circles, it looks very much as though the Chinese Government was trying to pay off one loan with the issue of another.

Simplified Chinese Characters.

After much work on the part of a "modern" clique in the Department of Education in Nanking, a series of simplified characters were adopted. Now these are to be dropped according to a recent resolution passed by the Central Political Council.

Since the passage of the law requiring their use, there has been considerable opposition to the use of the new characters by the various publishing houses in Shanghai and Nanking which come under closer observation by Nanking officials.

Other than the heads of the publishing houses no one else paid any attention to the government regulations. It seems that the action of the C. P. C. was due to a joint petition from the publishing firms stating that the compulsory adoption of the simplified characters would require replacement of enormous amounts of type and entail very heavy business losses.

2. Diplomatic Changes.

M. Renato J. Lago, the new Brazilian Minister to China, arrived in Shanghai on February 5th. He will present his credentials in Nanking on February 21st and then proceed to Peiping where he will reside in the Brazilian Legation.

An announcement from Tokyo states that reports regarding the appointment of Mr. Hachiro Arita, formerly Ambassador to Belgium, as Ambassador to China in place of Mr. Ariyoshi have been confirmed. The new Ambassador is expected to arrive in Shanghai about the last of February. The Chinese are not anticipating the change with much pleasure. It seems that Mr. Ariyoshi was reasonably moderate in his dealings with the Chinese Government and so incurred the displeasure of the military clique. Mr. Arita is expected to adopt a much stronger policy.

The Nanking Government has announced that Dr. Wellington Ku (Ku Wei-chun), the present Minister to France, will be appointed Ambassador. Dr. Ku has been in Shanghai for some time waiting for this announcement before he would consent to return to France. He is one of the best known of the Chinese Foreign Service but is considered more foreign than Chinese by the Chinese themselves.

3. Sino-Japanese Trade Council.

After several months of preparation, a Sino-Japanese Trade Council has been inaugurated in Shanghai. It is known as the "Chung - Jih Mao I Hui" and is composed of twenty-one Chinese and four Japanese members. Among the prominent Chinese are:

K. P. Chen - General Manager of the Shanghai Commercial and Savings Bank and Chairman of the Shanghai Bankers' Association.
Sung Han-chang- General Manager of the Bank of China.
Liu Heng-sheng- General Manager of the China Merchants' Steam Navigation Company
Chou Tso-min - President of the Kincheng Banking Corporation, and head of the Peiping Bankers' Association.
Yu Tso-ting - Chairman of the Shanghai Chamber of Commerce.
Tang Shou-ming- General Manager of the Bank of Communications.

The Japanese members are as follows:

T. Funatsu - Director-General of the Japanese Cotton Millowners' Association.
Y. Yonesato - Chairman of the Japanese Chamber of Commerce in Shanghai.
M. Yoshida - Manager, Shanghai Branch of the Mitsubishi Bank.
T. Urabe - Manager of the Shanghai Branch of the Mitsui Bussan Kaisha.

Chou Tso-min was elected President of the Trade Council with Yu Tso-ting and Kenji Kodama, President of the Yokohama Specie Bank, as Vice-Presidents. According to prearranged agreement, Mr. Chou becomes automatically Vice-President of the Sino-Japanese Trade Council in Tokyo of which Mr. Kodama and Mr. Ito, Chairman of the Association of Japanese Cotton Millowners in China, are respectively President and Vice-President.

The formation of this Trade Council is the result of the trip to Japan some weeks ago of a number of prominent Chinese bankers (see G-2 Report No. 9220, item 7). Just how much influence the Japanese financial interests can bring to bear on China remains to be seen, but it is certain that considerable of the money power of China is represented in the new Sino-Japanese Trade Council.

4. Manchoukuo-Outer Mongolia Border.

The situation along the Manchoukuo-Outer Mongolia border has been full of dangerous possibilities for some time. Ever since the incident at Lake Buir Nor on January 24, 1935, there have been a number of occasions when soldiers of Outer Mongolia have clashed with Manchoukuo detachments. Any one of these incidents could have been serious but have resulted in efforts to call a conference which would settle the affair peaceably.

The first meeting of May 31, 1935 was hardly convened before another incident, this time at Hailastengol, paralyzed negotiations. Since then there have been various occasions when one side or the other has been accused of violating the border line and the game has about reached a stalemate with accusations even.

The Japanese, running true to form, wish to annex every possible foot of territory which can be secured. They announce that a boundary line must be clearly defined with marking posts and barbed wire. The Outer Mongolians do not appear to care much about the demarcation phase but they are worried over Japanese survey parties and detachments of Manchoukuo troops with Japanese officers who are continually seen along the indefinite "no man's land". This doubtful area caused no one much worry until the Japanese brought forth the country of Manchoukuo and have been determined to extend Japanese influence further on the mainland of Asia.

The latest incident, according to Japanese reports, took place on February 6th when a party of Outer Mongolian soldiers crossed the "boundary" near Olanhottok. Soviet reports have carried remarks about a Manchoukuo invasion of Outer Mongolia to make matters even. Another report which strikes closer to the root of the whole trouble is from Tsitsihar stating that five Soviet citizens charged with espionage in Manchoukuo will be expelled and no doubt in the Russo-Japanese angle of the matter lies the answer to much of the Outer Mongolia-Manchoukuo question.

Japan is afraid of Russia and fears she will be attacked before her defense preparations are complete. Japanese officers appear to have a complex concerning the Soviet threat through Urga and envisage long columns of troops marching across Mongolia to cut Manchurian railway lines. Kuantung Army staff officers are pushing into Inner Mongolia with Li Shou-hsin's soldiers but so far the Japanese have been treading lightly on the toes of Outer Mongolia.

Perhaps their success in Chahar has made the Kuantung Army over anxious and they are determined to see just how far Russia is willing to back up the Outer Mongols. Japanese trial balloons along the Siberian border convinced Tokyo as to Soviet reactions to efforts in that direction, but whether Moscow will display so strong an attitude should Japan press her Mongol allies is another question. It may well be that the Japanese actions at this time vis-a-vis Outer Mongolia are designed to bring this point to a test.

5. North China Icebound.

Following a spell of continued cold weather such as has not been experienced in many years, the ocean froze along the entire coast of North China so that by February 5th many ports including Tientsin were closed to navigation. A great number of vessels were trapped in the Gulf of Chihli due to the ice fields which in some places were thirty feet high and which reached out to sea for about fifty miles.

On February 7th came a slight break in the weather and navigation was resumed. Many accidents occurred to junks but there is no way of checking up on the loss of these vessels nor lives. No serious trouble has been reported by larger vessels except one which lost her rudder and had to be towed into port.

6. Nanking Blunders in Inner Mongolia.

Apparently the Nanking Government has come to the realization that Chahar Province outside the Great Wall is as lost to China as is Manchuria. However, instead of putting up a semblance of face saving in the matter, Chiang Kai-shek seems to have deliberately thrown Prince Te and many of the most influential Mongols into the arms of the Japanese. This blunder was made first when the Generalissimo appointed Fu Tso-yi of Suiyuan to deal with the Mongols, and next when he approved the formation of a new Mongolian Political Council for the western Banners of Inner Mongolia (see G-2 Report No. 9288, item 7).

The last step in this tragedy of errors was the appointment of Yen Hsi-shan of Shansi to head the new Council of Mongols. Perhaps Nanking's hope in this instance is to keep Yen from listening to Japanese offers of "autonomy", but this will count for nothing in the big picture. The Chinese Government has actually helped the Japanese to divide the Chahar Mongols from the Suiyuan Mongols and has made impotent a considerable element which if allowed to have arms and ammunition could and would have been willing to resist the Japanese advance. Yen's remaining under Nanking does not depend on honors or favors of Chiang Kai-shek but upon how much pressure the Kuantung Army is willing to bring to bear upon him.

In any case the situation for the Mongols looks hopeless. Te Wang is still in the vicinity of Changpei hoping some new deal will enable him to draw a few better cards. Cast off by Nanking and cut off by the Japanese from his few friends among the Kalgan Chinese, Prince Te is having to shift for himself. He will never receive the credit due him for striving so hard to keep Inner Mongolia with China. Months ago the Japanese offered considerable concessions to the Mongols to cut loose from China and become a "Meng Ku Kuo" or Country of the Mongols together with the Mongols of Manchuria. Te Wang was instrumental in stopping this plan and now it looks as though it would have been better for the Mongols had he listened to the Japanese offers, since now the possibility of a united Inner Mongolia looks very dim.

The result of recent events in that area has been to divide the Mongols in Chahar from those in Suiyuan. The Chahar Banners are rendered incapable of action by the presence of Li Shou-hsin and his men from Dolonnor with a Japanese staff. The Suiyuan Mongols are organized in name only in the new Council just established by Nanking mandate. Headed by Yen Hsi-shan and Fu Tso-yi, who are not trusted even by the western Mongols, who are willing to intrigue with Suiyuan and Shansi officials about the opium traffic from Ninghsia and Kansu, the new Mongol Council has been launched on rough seas.

Of the old Pailingmiao group, the Mongolian Political Council, nothing is heard. Te Wang, its Secretary and most influential member, has been disregarded by Nanking and cut off from his only Chinese friends in Kalgan by the Japanese movement of Li's forces to Changpei. So the Mongols, buffeted about by both China and Japan, are seeing their dreams of unity for Inner Mongolia go up in smoke.

7. Japan and North China.

Despite the fact that all Japanese agencies are working for the same general end it is evident that methods have not been coordinated. For example, the policy of Mr. Ariyoshi, who has just been relieved as Ambassador to China, did not suit the taste of the Japanese military. Yet no one can say that Mr. Ariyoshi was not furthering Japanese plans and ambitions in China, - it was just that his methods lacked the punch deemed essential by the army.

In the same manner may be classed the policy of Mr. Hirota and his so-called "Three Point Program". This may well be the general policy of the Tokyo Foreign Office, but it certainly lacks much desired by the military. It appears that Mr. Hirota is anxious for Sino-Japanese cooperation against communism, wishes China to handle her foreign relations according to the Japanese yard stick and desires in general the settlement of all outstanding questions between Japan and China. This is a large order and will take time, which the impatient Japanese Army is unwilling to give.

Mr. Hirota's general principles are certainly broad enough but are most interesting not in themselves but in how they might be applied. For example, the first statement as to cooperation against communism could be extended so as to provide for Japanese advisers in all departments of the Chinese Army and the movement of Japanese forces into any part of China which the Japanese desired for "cooperation" with the Chinese forces. The second point regarding foreign relations would certainly mean that China would not be allowed to make alliances or agreements with other foreign powers without Japanese approval. This would prevent foreign loans, tariff agreements and in fact any international action on the part of China. The third item regarding outstanding questions is certainly a portmanteau clause into which can be placed matters such as economic cooperation between China, Japan and Manchoukuo, Japanese control of the currency of North China at least, recognition of Manchoukuo and a host of others.

There is ample evidence to show that the Japanese Army in general and the Kuantung command in particular are not disposed to let diplomacy take its time, even though they have apparently lessened their opposition to the suggested Sino-Japanese conference in Nanking (see G-2 Report No. 9267, item 1). It will be remembered that General Isogai, the Japanese Military Attache stationed at Shanghai, held a conference with General Kai-shek (see G-2 Report No. 9288, item 8) after which he left for Japan on January 30th.

Since that time the Japanese officials in North China, including General Doihara, have had little to say and they are believed to be awaiting the result of discussions now taking place in Tokyo. Meanwhile there are rumors that "discussions will be opened in the near future for the settlement of the eastern Hopei and the Chahar questions". General Doihara is quoted as saying that he was satisfied with the present trend of affairs, which dampens the hearts of his Chinese listeners.

So far as can be observed, the Japanese are unwilling to have Yin Ju-keng's bogus "Eastern Hopei Government" amalgamated under Sung Che-yuan but are assisting the former with staff officers and instructors to build up an army which is now half the size of Sung's and rapidly growing. The Chahar question is believed to be entirely out of the hands of any Chinese authorities and lies between the Japanese and the important Mongol Princes, most prominent among whom is Te Wang. No accurate information can be secured as to the results of the conferences at Changpei between the Japanese, Li Shou-shin and Te Wang (see G-2 Report No. 9288, item 7).

Pending the decisions of the Japanese War Office which no doubt will be based upon the recent conferences of high Japanese military men in North China and Isogai's report of his discussions in Nanking with Chiang Kai-shek and other Chinese leaders, there is little to show that the Japanese are crowding Sung Che-yuan and the other Chinese authorities in North China. However, there are certain lines along which the Japanese Army has been working which are worthy of note. Some of these have been mentioned in various reports as they became known but are listed again for purposes of more handy reference. In general the Japanese aims appear to include:

1. The establishment of an autonomous regime in Hopei with Japanese advisers and its gradual extension into Shantung, Shansi and Suiyuan. Reports that Doihara will be named as chief adviser in Peiping are believed to have considerable foundation. It will be noted that Chahar is not named as it is already lost to China. This extension would complete Doihara's original "five province autonomy" scheme. If in this scheme the name of the "Hopei - Chahar Political Council" could be changed to "Hopei - Chahar Anti-Communist Autonomous Council" it is understood that the Japanese would allow Yin Ju-keng and his Eastern Hopei Government to be administered by Sung Che-yuan.

2. The establishment of a unified railway administrative system for North China. This would include Hopei and Chahar and give the Japanese complete control of the Peiping-Mukden Railway and the Peiping-Suiyuan line through Kalgan to Paotow in Suiyuan. The control of the Tientsin-Pukow in Shantung and the line into Shansi would follow as the "autonomous" area was extended - to say nothing of the Peiping-Hankow Railway in southern Hopei.

3. All Postal, Salt, Customs, Telegraph, Railway Administration and other national revenues are to be retained for the use of North China, except a percentage remitted to Nanking for payment of obligations to foreign countries. Included in this scheme is the opposition of the Japanese to the movement of silver from North China. It is believed they would like to see a new currency issued linked with the Japanese Yen.

4. Trade conditions between North China and Manchuria must be placed on the same basis as existed prior to the Mukden Incident of September 1931. This would mean that all tariff barriers between China and Manchoukuo would be removed and that Japanese goods would enter without duty. Linked with the communications problem would come the establishment of air routes by the Japanese into North China as they have in M anchuria.

5. Economic cooperation between North China and Manchoukuo. This would include gradual Japanese control of coal, iron, cotton and wool export of that area.

6. Military cooperation against the communist elements in North China. This of course is open to all kinds of abuses such as the movement of Japanese troops into any area against the so-called communist elements which might easily be construed as against any anti-Japanese movement. It would include Japanese "advisers" who would tell the Chinese troops what to do and see that they did it.

As this report is being prepared the fulfillment of the Japanese aims just noted is in the hands of the gods but it is certain that the Rising Sun of Japan has risen high enough so that the careful observer is quite able to read the handwriting on the wall.

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Office of the Military Attache, American Embassy, Peiping, China, February 14, 1936 - To: Chief, Military Intelligence Division, Washington, D.C.

Approved.

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COMMENTS ON CURRENT EVENTS

February 15—28, 1936

RECEIVED G/2 W. D. MAR 25 1936

1. The National Government:
    Wang Ching-wei to Europe
    New Attaches Abroad
    National Relief Commission
2. New Life Movement
3. Belgian Interest in Manchoukuo
4. China-Japan Radiophone
5. British Flight to Japan
6. German Economic Mission
7. British Ambassador Leaving
8. North China Icebound
9. Manchoukuo-Outer Mongolia Trouble
10. Sino-Japanese Relations

1. The National Government:

Wang Ching-wei to Europe.

Mr. Wang Ching-wei, former President of the Executive Yuan, sailed for Germany on February 19th. Mr. Wang has been slow in regaining his health since his attempted assassination on November 1st (see G-2 Report No. 9235, item 5) and his physician, Dr. Kurt Noll, recommended a journey abroad.

Chinese press reports deny that any political significance attaches to Wang's trip, but the facts do not justify this assumption. Wang belongs to a party that has been endeavoring to compromise with the Japanese and for this reason he and Hu Han-min have been enemies for some time. Just now the Nanking Government is endeavoring to induce Hu to come to Nanking in the hope that this move will assist in bringing the Cantonese politicians and military men more in sympathy with Chiang Kai-shek.

It is therefore the belief of this office that Wang's German voyage is a move in this direction as the Chinese say, "Now that Wang has left the stage, it is possible for Hu to face the audience". So far Hu has refused to visit Nanking but Mr. Wei Tao-min, Marshal Chiang's special representative who has just returned from Canton, states that the veteran Kuomintang leader will go to Nanking in the spring. In this connection it is believed that the trip of Dr. C. T. Wang, former Minister of Foreign Affairs, who sailed for Hongkong on February 19th, has a bearing on Chiang's efforts to induce Hu to bury the hatchet and visit the capital.

New Attaches Abroad.

The Executive Yuan on February 25th adopted new regulations regarding the sending of commercial attaches to foreign countries. The first one to be appointed is said to be a commercial attache to Japan, who is expected to accompany the new Ambassador, Hsu Shih-ying, when he leaves for Tokyo.

The Chinese Foreign Office has received word from Berlin to the effect that Colonel Feng T'i, the Chinese Military Attache to Berlin, has arrived with members of his staff. Colonel Feng is a native of Kiangsu Province and a returned student from Germany.

National Relief Commission.

General Chu Ching-lan has been appointed head of the National Relief Commission in place of Mr. Hsu Shih-ying, who has been designated as the new Ambassador to Japan. General Chu was Governor of Kwangtung Province in the early days of the Republic. His appointment is not expected to meet with the approval of the Japanese as he had charge of all funds sent to the various volunteer units in Manchuria and Jehol during the Japanese invasion.

2. New Life Movement.

The second anniversary of the New Life Movement (see G-2 Report No. 8797, item 1), was celebrated in Nanking on February 19th but received practically no attention in other sections of the country. General Chiang Kai-shek was the principal speaker at the meeting which was held in the building of the Officers' Moral Endeavor Association. The Generalissimo was disappointed in the accomplishments of the movement in the past and made a plea for better service on the part of the participants in the movement which was designed to rebuild the very basis of national life.

The New Life Movement was organized by Chiang Kai-shek for two purposes; first, to help unify the country by giving the people a set of rules for the conduct of life patterned on old China, and second, to keep the students and the thinking people engaged in introspection and research of China's internal troubles so that they would not have time to worry about the country's foreign relations, especially the present policy of the Nanking Government towards Japan. Chiang has realized for some time that should students and intellectuals take up an anti-Japanese campaign it would seriously interfere with his announced plan of avoiding any definite clash with Japan until China was better prepared.

Just now the question seems to be whether or not Chiang has waited too long. The waiting policy has lost the three provinces of Manchuria, Jehol, most of Chahar, and the Japanese are casting their nets hopefully for Hopei, Shansi, Suiyuan and Shantung.

The New Life Movement was one of the forces he relied on to unify China against Japan, but while it has done some good it has not achieved his expectations. The movement is still flourishing near Nanking and along the Yangtze River. It did not take hold in South China and was forced on North China by the Nanking appointees who occupied official positions. Now these officials have been replaced almost entirely by the more conservative "old type" Chinese and while the New Life signs remain on public buildings, stores and entertainment places, the body has gone. Like the Cheshire cat, the cat has vanished but the grin still remains.

3. Belgian Interest in Manchoukuo.

During the past month there has been a Belgian economic mission visiting Japan and there are indications, according to Japanese sources, that this mission is also interested in improving Belgian trade with Manchoukuo. The principal article imported into Belgium from Manchoukuo is soya beans, the trade in which commodity amounts to about a million yen annually.

The Japanese state that two officials of the Manchoukuo Government, Mr. Kato (Japanese) of the Department of Foreign Affairs in Hsinking, and Mr. Matsushima (Japanese) of the Department of Foreign Affairs, are working on the matter of better economic cooperation between Belgium and Manchoukuo and that the Japanese Foreign Office is assisting in these discussions.

4. China-Japan Radiophone.

On February 15th radio telephone service was opened between Shanghai and Tokyo. The inauguration ceremony took place at the same time in the Shanghai Telephone Office and the Department of Communications in Tokyo. Congratulatory messages were exchanged between various officials of the two governments, and later in the day the service was opened for commercial business.

5. British Flight to Japan.

Considerable interest has been aroused by the "good will" flight of British planes from Singapore to Japan and return. Two of them which were held up in Hongkong due to foggy weather arrived in Amoy on February 23rd, making the trip just under four hours. The third ship flew direct to Amoy from Manila. Present plans are to continue to Japan via Shanghai.

The purpose of this flight is stated to be a "good will" gesture. Chinese opinion considers it as an object lesson to Japan that they still have something to learn from the British and to make the Japanese realize that Hongkong is well within supporting distance from Singapore.

6. German Economic Mission.

The German Economic Mission which visited Japan and Manchoukuo recently (see G-2 Report No. 9235, item 3) has arrived in China. After spending some days in Shanghai and Nanking, the mission left for North China on February 19th. The mission is headed by Dr. Otto Kiep, who states that the purpose of his trip is to study conditions in China with a view to the improvement of Sino-German trade relations.

The mission intended to spend some time in Manchoukuo studying the soya bean industry, but they were given so much publicity that they curtailed their visit. The publicity was due to the efforts of Mr. Ohashi, the Japanese who is Vice-Minister of Foreign Affairs for "Manchoukuo". Mr. Ohashi wished to give the impression that the German mission was interested in diplomatic affairs as well as soya beans which did not please Doctor Kiep.

7. British Ambassador Leaving.

London despatches state that Sir Alexander Cadogan, British Ambassador to China, has been appointed Deputy Under-Secretary of State. He will be succeeded here by Sir Hugh Montgomery Knatchbull-Hugessen, who is now Minister in Iran.

8. North China Icebound.

The unusual cold spell which held the North China coast icebound for the first time in many years (see G-2 Report No. 9302, item 5) broke only to be followed a few days later by a snow storm which lasted four days. Then came a break of two days after which the snow started again.

The ice in the Gulf of Chihli has piled up twenty feet high and reaches out for over forty miles from the shore. This fact has closed Chinwangtao to shipping as well as Taku, and the Army transport "U.S. Grant" has been forced to make the port of Tsingtao. This will be the first time in some years that one of our Army transports has touched this port as there has been no call for such a stop since the Philippine Department meat contracts have been placed elsewhere.

9. Manchoukuo-Outer Mongolia Trouble.

The altercation between the Japanese wolf disguised in Manchoukuo sheep's clothing and Outer Mongolia remains unsettled. Since the incidents of early February (see G-2 Report No. 9302, item 4) both sides have been doing a lot of talking but little has been accomplished. Protests, replies and counter-protests have been the order of the day and apparently the center of negotiations has shifted to Moscow where Ohta, the Japanese Ambassador, has been talking with officials of the Soviet Foreign Office.

If reports reaching China can be credited it would appear that the Russians desire a disinterested party present in any joint commission that might discuss the matter of border violations. The Japanese held out strongly against this plan and late reports indicate that the Russians have agreed in principle to the establishment of a joint commission of six composed of three Soviet and three Japanese and Manchoukuo representatives. Japanese sources intimate that a slate for the latter might include Mr. Okitsu, who is the Japanese Consul at Suifenho, one delegate from the Kuantung Army and one from Manchoukuo.

There is a general feeling that the tension between Russia and Japan over the Outer Mongolia-Manchoukuo question has been lessened. In spite of this the Soviet decision to close all their consulates in Manchoukuo except the one in Hsinking is causing considerable comment in Japanese circles and the Chinese are hopefully seeing in the move a possible Russo-Japanese war cloud on the horizon.

10. Sino-Japanese Relations.

The period of waiting in North China continues unbroken by any particular pressure on the part of the Japanese. Perhaps it is the lull before the storm and both Chinese and foreign observers are looking with great interest to the arrival of Mr. Arita, the new Japanese Ambassador who reached Shanghai on February 26th and is expected to present his credentials about March 1st in Nanking.

It may be a coincidence but it is interesting to note that General Isogai, the senior Japanese Military Attache stationed in China, came on the same boat with Mr. Arita, and the Chinese take this as an omen that their policies will likely continue together. To the Occidental it seems strange to mention the "policy" of a Military Attache as being different from other government representatives, but in the East it is the military and not the diplomatic officials who direct the destinies of their countries and this is outstandingly true of the Japanese military men.

The Chinese are optimistic, unduly so, this office believes, that Chiang Kai-shek has found some plan which will appease the Japanese and that negotiations will be moved from North China and be handled in Nanking. Events of the past would not lead to this assumption and certainly it seems that the Japanese can accomplish much more by dealing directly with North China officials whom both sides know can hope for no backing from Chiang Kai-shek.

While it is impossible to anticipate what Arita's ideas will be in dealing with Sino-Japanese questions, there are several indications of the general policy of Japan which are worthy of note. One is the recent breaking into print of General Tada who has been making remarks to the press to the effect that Yin Ju-keng's bogus East Hopei Council could not hope to be amalgamated with Sung Che-yuan's administration in Peiping. This was considered by certain well informed sources to be a direct indication that Tada was trying to take negotiations with the Chinese along different lines from those desired by Doihara, who was believed to have other ideas. Yin was set up in business by Doihara and the fact that Yin's "army" preparations and the activities of Japanese instructors had lessened considerably of late would seem to mean that Doihara was inclined to soft peddle Yin's autonomy movement in the hope that Sung could be brought into his net.

Following Tada's press interviews of recent date came a despatch from Tokyo to the effect that Tada would be recalled to Japan and be replaced by Lieutenant General Seiji Kozuki, now in command of the 12th Division. As his Chief of Staff in

Tientsin will be Major General S. Kita, formerly of the Kuantung Army mission in Shanhaikwan and prominent in the Tangku Truce negotiations. These appointments go in line with the Japanese announcements that the garrison in North China would be doubled "because the number of Japanese nationals in North China has recently increased". So it would appear that Tada's policy in North China was weighed against Doihara's and found wanting and that Doihara is still strong in the graces of the Tokyo War Office.

Another appointment of interest is that of Colonel Takayoshi Matsumuro to be a General and to replace General Doihara as head of the Special Service Department of the Kuantung Army in Mukden. Matsumuro is an apostle of Doihara and was formerly head of the Kuantung Special Service Department in Jehol. Doihara is again mentioned as being promoted to Lieut. General and ordered home, and states that he will be leaving China in the near future.

Coupled with the matters mentioned above has come the news from Tokyo of a military coup d'etat and the assassination of Mr. Takahashi, the Minister of Finance - the only man who had courage to tell the military that the Treasury would not stand their exhorbitant expenditures. The Chinese see a military dictatorship forecast by these events and can think of two results, one the taking over of China by Japan and the other the possibility that Japan will now bring on a Russo-Japanese war.

While it is impossible from this angle to appreciate fully and evaluate the meagre news of the coup d'etat by the Japanese military, other indications of Japanese policy in China are quite plain. The promotion of officers in charge of the North China Garrison and the announcement that this would be doubled seems indicative of a stronger policy than before on the part of the military.

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No. 9313 1st Ind. JWS:elh

Office of the Military Attache, American Embassy, Peiping, China, February 28, 1936 - To: Chief, Military Intelligence Division, Washington, D. C.

Approved.

Joseph W. Stilwell
Joseph W. Stilwell
Colonel, Infantry
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COMMENTS ON CURRENT EVENTS

February 29 - March 15, 1936

RECEIVED G/2 W. D. APR 7 1936

1. The National Government:
   - China Protests
   - Conscription Law
   - Ambassador to Japan
   - Uniform for Public Officials
2. New Japanese Ambassador
3. British Good Will Flight
4. Japanese Naval Delegation
5. Communists in Shansi
6. Inner Mongolia
7. Sino-Japanese Relations

1. The National Government:

China Protests.

On March 4th the Ministry of Foreign Affairs sent a protest to the Japanese Embassy in Nanking regarding the continued flights of Japanese airplanes over North China. The note states that the flights constitute an infringement on Chinese territorial rights since in no case was permission for the flights requested from the National Government.

The Chinese press says that the note included a remark to the effect that "appropriate measures will be taken by the Chinese Government against future recurrence." Just what this means is not clear since the Japanese are using Chinese landing fields in North China at will and have built one of their own outside Tungchow, only about fifteen miles from Peiping. This office does not believe that the Chinese will take any action in this matter other than verbal. The Japanese have paid no attention to previous Chinese protests but if the above quoted statement was actually a part of this latest note, some reaction may be expected.

Conscription Law.

Considerable publicity has been given a press report from Nanking regarding a conscription plan which provides for a two year period of military training (see G-2 Report No. 9319). Later advices state that the plan is experimental only and will apply to Government employees only. The spokesman of the Japanese Embassy is quoted as saying, "The scheme at present is only a paper one, of which we are not taking much notice."

Ambassador to Japan.

Mr. Hsu Shih-ying, the newly appointed Chinese Ambassador to Japan (see G-2 Report No. 9288, item 1), left Shanghai on March 6th for his post in Tokyo. Since his appointment Mr. Hsu has visited North China and has talked with many

Chinese and Japanese of importance. It will be remembered that he was a member of the old Anfu (pro-Japanese) party which was prominent in North China some years ago under Tuan Chi-jui. With this background, Mr. Hsu can be expected to be very friendly in his relations with the Japanese.

Uniform for Public Officials.

On March 10th the Executive Yuan passed a resolution requiring the wearing of either foreign clothes or the Sun Yat-sen (Chung Shan) style clothing, effective next summer. This ruling applies to those above the rank of sectional chiefs in all ministries and commissions under the Executive Yuan, as well as those in the various departments of the Nanking Municipal Administration.

This decision of the Executive Yuan is based on the matter of "face" and the desire of a certain group of young officials to be "modern". Neither of the two types of clothing mentioned above is suitable for the Chinese house without proper heating, and the argument that the long Chinese gown hinders the activity of the wearer can hardly be a sound one when applied to the Chinese departmental official. The Chinese gown is a most dignified and comfortable dress for China and the majority of Chinese officials will not take kindly to the new rules which will require additional expense from their already meager salaries.

2. New Japanese Ambassador.

Mr. Hachiro Arita, the new Japanese Ambassador to China, arrived in Nanking from Shanghai on March 5th. He came on the Japanese gunboat "Ataka," a fact which may be regarded as presaging his interpretation of Japanese policy in China though his first speech was couched in mild enough language. He presented his credentials on March 6th.

Mr. Arita stated to the Nanking press representatives that the policy of the Japanese Government toward China had been decided upon several weeks ago in Tokyo at a conference between the War, Navy and Foreign Ministries. The details for the enforcement of this policy remained to be worked out in China, according to the new Ambassador. He also told the reporters that he had been out of touch with affairs in China for some time and as a result would have to exchange views with Chinese leaders before he could decide upon the method of procedure for readjusting Sino-Japanese relations.

3. British Good Will Flight.

The British flight from Singapore to Japan (see G-2 Report No. 9313, item 5) has been postponed due to the military coup in Tokyo and may be entirely abandoned. The planes arrived in Shanghai on February 26th and went to Nanking on March 2nd.

Only two of the planes reached Shanghai, the third waiting in Amoy for spare parts which have been sent from Singapore. Arrangements for the reception of the planes were made by Group Captain R. P. Willock, the British Air Attache.

The three British planes left Hongkong on March 9th and arrived in Singapore the next day.

4. Japanese Naval Delegation.

Admiral Osami Nagano and other members of the Japanese Delegation to the London Naval Conference passed through Shanghai the first two days in March on their way back to Japan. Their activities were confined to calling upon Mr. Arita, the newly arrived Japanese Ambassador and being entertained at a tiffin party by Admiral Sato, the Japanese Naval Attache. This visit is merely due to the stopping of their ship at Shanghai and has no other significance.

5. Communists in Shansi.

Both the foreign and Chinese press have been carrying scareheads regarding the Communist invasion of Shansi Province. The trouble started a couple of weeks ago when a force of "Communists" crossed the Yellow River on the ice and entered Shansi Province from Shensi. At the present time they are in the western part of Shansi with a force estimated - and probably exaggerated - as containing ten thousand men.

There is no particular significance in this movement. The so-called Communist force merely took advantage of the fact that the Yellow River was frozen and crossed on the ice to Shansi to look for better feeding grounds for the winter. They are outnumbered more than five to one by the troops available and could easily be defeated if some leader would take the troops in hand and push the campaign.

It is considered likely, however, that the Government troops may be expected to garrison areas near the Communists with the idea of pushing them on to other fields which will obviate the necessity of taking very strong military action against them. (For details as to the Communist move into Shansi see G-2 Report No. 9322.)

6. Inner Mongolia.

Inner Mongolia has seen the most severe winter of the past thirty years and the unusually deep snow has restricted political as well as possible military movements. It will be remembered that at the last authentic news from outside the Wall, the troops of Li Shou-shin with Japanese staff officers from Dolonnor had taken Changpeihsien and conferences were being held between them and Te Wang, Prince of East Sunnit Banner and Secretary of the Pailingmiao Council (see G-2 Report No. 9288, item 7).

It was while these conferences were in progress that the Nanking Government made its blunder in appointing a new Mongolian Political Council for the Western Mongols with Yen Hsi-shan and Fu Tso-yi as advisers (see G-2 Report No; 9302, item 6). By this action Nanking played into the hands of Yen, Fu, and a few of the western Mongol leaders who have been conspiring against the Pailingmiao Council in an effort to get rich from the opium tax split with Suiyuan officials.

The formation of the new Council and the placing of the Suiyuan Chairman, Fu Tso-yi, in charge of negotiations between the Mongols and Nanking forced Te Wang's hand and he decided to accept Li Shou-hsin's troops under his command as the official troops of the Pailingmiao Council. These troops have been undergoing what the Mongols call "cleansing" and all men whose antecedents and family connections are not vouched for are being removed. They will be augmented by the Banner forces of Chahar under Joddajap (Cho Shih-hai) and also men of the Four Chahar Right Wing Banners under Damrinserin.

Details are not available as to the method of supply and the equipment which will be available to this unit, nor whether it will be supplied with Japanese staff officers, but it seems likely that Te Wang has been forced to accept these individuals as well. In any event there will be a formidable force available for Te Wang and the other officials of the Pailingmiao Council to uphold their rights against the new Council.

Some days ago Chinese press despatches carried news to the effect that the soldiers and officials of the Pailingmiao Council had left like rats abandoning a sinking ship, but Mongol sources state that this applied only to a few faint-hearted ones and that the rest are still at Pailingmiao and are still loyal to Te Wang.

As this report is being prepared there are unconfirmed reports that some of Te Wang's men are taking advantage of Communist scares in Shansi and the departure of Shansi troops to the south to move from Chahar into Suiyuan in the direction of Pailingmiao, but these rumors cannot be confirmed. It is quite possible, however, that Te Wang and other officials of the first Council may wish to have a showdown with the Suiyuan authorities and their recalcitrant Mongols whom they have induced Nanking to appoint as the second Council for Mongolia. In any event the Chinese-Mongol-Japanese triangular powder keg which exists in Inner Mongolia is becoming increasingly more dangerous.

7. Sino-Japanese Relations.

It is certain that all Chinese in general and those in North China in particular breathed a sigh of relief when General Kenji Doihara sailed from Tsingtao on March 7th. Doihara has been called many names from the poetic "Lawrence of Asia" to the unpoetic depths of descriptive epithet of which the Chinese are past masters. Considered by all as a bird of ill omen ever since the Mukden Incident of 1931, trouble has followed in his wake wherever he has traveled in China. According to announcements to the press he has been given a command in Japan and will not return to China. His place as head of the Special Service Department of the Kuantung Army will be taken by General T. Matsumuro, who has been heard of before on special service in Jehol.

The departure of Doihara, the arrival of the new Ambassador, Mr. Arita, and the Army rebellion in Tokyo have all given a breathing spell to Sino-Japanese negotiations. Meanwhile the situation remains fluid with local politicians in all sections of the country repairing their fences.

In the North one hears of discussions centering around the possible appointment of Yin Ju-keng, head of the Japanese sponsored "Autonomous Government of Eastern Hopei," as the Number Two of the Hopei-Chahar Political Council. The general gossip is that if such is done there will be no Japanese objections to the inclusion of Eastern Hopei under Sung Cheyuan's regime.

South China news is slight but the interesting point is that Hu Han-min remains in Canton. One official source states that Hu is being detained there by Chen Chi-tang. Perhaps the arrival of Wang Chung-hui from The Hague may alter conditions as he is a great friend of Hu, but this office does not believe that this will settle the question of Hu going to Nanking. The Chinese seldom forgive but they never forget and to imagine Hu placing himself twice in jeopardy is hard. It will be remembered that Chiang Kai-shek kept him confined in Nanking for many months and Hu will require very tempting bait before he will again risk placing himself in Chiang's power.

The only possible bait that occurs to the mind at the present time is a definite decision on the part of General Chiang Kai-shek to risk a war with Japan. This might bring Hu and South China surely behind him. Unfortunately all evidence that can be secured points to the opposite policy on the part of the Chinese Government. Talk and preparations may be expected but if the actual decision to fight is made in the near future it will be most surprising. Foreign advisers close to the powers in Nanking agree that such may be the line expected and state that the "preparations will be very costly to China" without much good emerging.

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Office of the Military Attache, American Embassy, Peiping, China, March 13, 1936 - To: Chief, Military Intelligence Division, Washington, D. C.

Approved.

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COMMENTS ON CURRENT EVENTS

March 14 - 27, 1936

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1. The National Government:
    - Mah Jong Legalized
    - Chinese in United States
    - Central Savings Society
2. Prominent Personalities
3. Diplomatic Changes
4. Singapore Base
5. Manchoukuo-Outer Mongolia Border
6. Conditions in Inner Mongolia
7. Sino-Japanese Relations

1. The National Government:

Mah Jong Legalized.

According to a recent ruling of the Judicial Yuan the famous Chinese game of Mah Jong (Ma Chiang) has been pronounced a legal form of amusement when played in the home and not in public places. The ruling also states that even though the sound of the tiles being shuffled can be heard in the streets, the game may be played as long as it is played in a private house.

The game of Mah Jong, as it is spelled by most foreigners, is the most widely played gambling game in China, and the stakes may be anything from coppers to hundreds of dollars. The rich and poor play it and to legislate against the game is a waste of time, a fact which the Nanking jurists are beginning to realize.

Chinese in United States.

According to statistics published by the Chinese Overseas Commission there are 74,955 Chinese in the United States, of which 59,803 are males and 15,152 are females.

Central Savings Society.

Backed by Government support, the Central Savings Society opened for business on March 16th. The organization will be affiliated with the Bank of China and will be run on the same general principle as the International Savings Society. This latter organization flourished for many years in China but has recently been curtailed by orders from Nanking, as the authorities wished to go into business themselves.

The Central Savings Society is the result of some months of planning by Dr. Kung, the Minister of Finance, and others in the financial branch of the Government. It is calculated to place in the hands of the Government the savings of the people who can afford to buy four, eight or twelve dollar shares a month, and who will put it in an organization such as this one because of the chance of winning several thousand dollars in the monthly drawings.

2. Prominent Personalities:

Lin Sen.

Mr. Lin Sen, the venerable front for the Nanking Government and the so-called President of China, ordinarily has nothing to say, leaving statements of policy to his master, Chiang Kai-shek. Recently he broke his rule and in the course of a speech made a statement that the Chinese ought not only to take better care of their children, but that they ought to have more of them; otherwise the Chinese nation would be extinguished in a century.

If there is any one fundamental condition for which most of China's woes can be blamed, it is this very thing, - reckless procreation and the consequent over-population of the country. There are many points on which students of China disagree, but this is not one of them. That a man in Lin Sen's position could utter such a stupidity is a commentary on the mentality of Chinese officialdom, or officialdumb.

Chiang Kai-shek.

Chiang Kai-shek has also been making speeches, and being given credit for frankness and sincerity because he speaks openly of the lack of spirit in the Kuomintang, the let-down in the New Life Movement, and the "irregularities" of officials, - meaning wholesale and retail embezzlement of public funds. To the casual observer it would seem that the Kuomintang is only following the example of its leader, Chiang Kai-shek, who, if anyone, is most to blame for the slump in his party. He himself stood mute and allowed the Kuomintang to be thrown out of North China under Japanese fire; to snap at his underlings about it now is hardly befitting his dignity as leader.

The lack of success of the New Life Movement is surprising only to those who are ignorant of the enormous inertia of conservative feeling in this country. As to reform in public finance, it is certainly needed, and all he says is true. To get it effected is another thing, since all the officials now struggling to lay aside a few pennies for a rainy day will undoubtedly consider that the chief offender, now that his pile is made, is very inconsiderate to push reform measures until the rank and file have had their chances at the pork barrel.

Chiang seems to be coming to his senses about the relative value of Szechwan and the lower Yangtze. All indications point to the fact that he has given up the idea of running up to the hills to avoid the Japanese, and has come to realize the necessity of holding his own bailiwick around the capital. As might have been expected, this change of policy has brought with it a marked diminution of his influence in Szechwan, where the local patriots, Liu Hsiang, Yang Sen, etc., are already looking forward to the end of Central Government intrusion and a return to the good old days of taxation for revenue only and not one cent for tribute.

Hu Han-min.

Hu Han-min is still in South China and the uncertainty continues about his future. He wants to be President of the Executive Yuan; he wants to appoint a lot of his own followers to government jobs; and he wants a guarantee of personal safety while serving at Nanking. Chiang Kai-shek offers to let him appoint his own garrison commander, so as to reassure him about his health, but wants to dicker about the rest of it when Hu reaches the capital. Chiang doesn't want Hu around at all, but he does want the help of the Southwest military leaders and the public opinion controlled by the Canton civil officials. An appearance of solidarity is desirable at Nanking and if Hu has the goods, Chiang will pay a high price. But it is very doubtful indeed if Hu can deliver any of the Southwest military at Nanking, and without them Chiang's offer would be greatly lessened. If the military and civilian elements cannot get together better in Kwangtung and Kwangsi, and if Hu cannot appear to speak for them all, there is no use in his going to Nanking at all. It does not now look as if he ever would, or indeed as if it lies within his own volition to go.

Hsiao Chen-ying.

The dark horse in China at the present time seems to be General Hsiao Chen-ying, Mayor of Tientsin, whose latest activity has been celebrating birthdays, and when a Chinese official sets his mind on throwing a party he does it in a big way. Just after Chiang Kai-shek's warning about extravagance and his plea for more of the New Life, Mayor Hsiao of Tientsin seized the occasion of his father's 66th birthday to stage what is described as the most elaborate party since the birth of the Republic. Invitations were sent all over China. Personal representatives of such men as Hu Han-min, Wang Chung-hui, Pai Chung-hsi, etc., came to pay their respects. The best actors in China gave performances at the house. The facilities of the caterers of Peiping were taxed to the utmost to provide three different styles of food for the thousands of guests. Special trains came from Tientsin. The guests' hotel bills were paid by the host. Forty-seven thousand presents were received, and in spite of having to put about $100,000 in circulation, Hsiao perhaps broke even.

Hsiao Chen-ying is not a national figure. He is a lawyer, was a district magistrate in Kirin for a time, and then was an adviser in the Kuominchun. For the past few years he has been with Sung Che-yuan. This is his entire claim to fame. But - he is also known to have been the go-between in the negotiations carried on by Sung and the Japanese before the establishment of the Hopei-Chahar Government and as such he may be a useful contact in the future. This is the only possible explanation of the attention paid by substantial citizens to this minor official and unimportant personage. The point to be noticed, of course, is that this widespread response to his display is an involuntary confession of the fears of many of China's leading men. In bowing to a person such as Hsiao, with whom under ordinary conditions they would not associate on any terms, they betray their belief that the Japanese influence is going to be paramount, not only in the north but all over the country, and they are anxious to stand well with the man who appears to be closest to the throne.

3. **Diplomatic Changes**.

No sooner had Mr. Arita, the new Japanese Ambassador, arrived in China than news was received that he would be Minister of Foreign Affairs in the Japanese Cabinet recently appointed as the result of the military coup d'etat in Tokyo. Mr. Arita was in the midst of conferences with the Chinese Minister of Foreign Affairs, General Chang Chun, when the news reached him. He continued his conversations in Nanking and then returned to Shanghai where he presided over a conference of Japanese Consular officers on March 22nd. After this he visited North China for the purpose of calling upon Chinese and Japanese officials, and held a Consular conference in Tientsin. He left for Hsinking via Mukden on March 26th.

It is understood that Mr. Arita will be succeeded in China by Mr. Shigemitsu, who is at present Vice-Minister of Foreign Affairs.

Dr. Oscar P. Trautmann, the German Ambassador, left Shanghai for Germany on March 24th accompanied by his family. He is stated to be going on leave but reports are current that he will not return as his connection with the Hitler regime is obscure. Rumors that Colonel Kriebel, the German Consul in Shanghai and a close friend of Hitler, would be appointed to succeed Dr. Trautmann were stated to be "ridiculous" by a German Embassy spokesman, as quoted in the press. The Germans, however, claim that no such statement was given to the newspapers.

Another foreign diplomat to leave in the near future will be Baron Guillaume, the Belgian Minister. He is stated to be going on home leave but as a general shift in the Belgian foreign service is expected this summer, it is quite likely that Baron Guillaume may be promoted and will not return to China.

An announcement of considerable interest to the Chinese was the news from Tokyo to the effect that General Isogai, the Japanese Military Attache in Shanghai, would be appointed Director of the Military Affairs Bureau in the War Office and that he would be replaced here by General S. Kita. General Kita is the same man who was a member of the Kuantung Army staff in Manchuria, rose to prominence during the Tangku Truce period, and was recently mentioned as a possible Chief of Staff for the Japanese forces in Tientsin. This change is considered by the Chinese to forecast more determined Japanese aggression in China which is considered the logical result of the evident success of the recent mutiny in the Japanese Army.

4. **Singapore Base**.

Reports from Singapore indicate that the British forces there have been greatly increased. With the scheduled arrival of the 2nd Battalion of The Gordon Highlanders and the 1st Battalion of The Middlesex Regiment, the garrison will be about three times that of former days. Another air field is being built which will make a total of three in the Singapore defense area. British authorities comment on these increases by stating that they are merely in line with the general policy to build up the armed forces of the Empire.

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5. Manchoukuo-Outer Mongolia Border.

If the Japanese purpose in exerting pressure upon Outer Mongolia was designed to see whether or not the Soviet Government would stand by their allies in case of hostilities between Japan and Outer Mongolia, then it was a successful move (see G-2 Report No. 9302, item 4). Russia replied in no uncertain terms through M. Stalin to the effect that she would come to the aid of Outer Mongolia in case the latter were attacked by Japan. Since that time the tension along the border has decreased.

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Propaganda has not subsided and both sides are active, the Japanese being the most in evidence. In Japan the War Office has issued a pamphlet commemorating the last Russo-Japanese war and discussing Russo-Japanese relations from 1905 to 1936. The fact that Russia is pursuing the same aggressive policy in the Far East is stressed and mention made that Great Britain and the United States while friendly to Japan in 1905 are now envious and not in sympathy with the present mission of the Japanese nation.

Another Japanese gesture is the report that a secret pact has been signed between Sinkiang and Outer Mongolia which is aimed against Manchoukuo. Russia is known to have great influence in Sinkiang (see G-2 Report No. 9235, item 8) but the signing of any secret agreement such as the Japanese claim has not been confirmed.

A commission to discuss boundary matters is still spoken of but in China no definite information is available as yet regarding the matter.

6. Conditions in Inner Mongolia.

With the break of the worst winter known in Inner Mongolia for many years, reports of actual conditions there are reaching North China. According to Mongols who have come down recently, over eighty per cent of the cattle, camels, sheep and horses have died. The intense cold has held back the grass and the deep snow has made it difficult for the animals to get at what little has sprouted. The sheep are said to have been so hungry that they ate the fur from the backs of other sheep with the result that the hairless ones froze to death.

The live stock is the only means of support for the Mongols as they plant no crops of any kind, so with the loss of their animals they will be reduced to famine conditions in the near future. Faced with this possibility, Te Wang, the Secretary of the Mongolian Political Council at Pailingmiao, has sent his adviser, General Pao Yueh-ching, a former well known Mongol cavalry leader who has retired from active service because he is almost blind, to Peiping for the purpose of trying to secure food and money for Inner Mongolia from North China or Nanking.

Up to the present time Pao has been given rather a cool reception by Sung Che-yuan and the other Chinese officials in the North. Their attitude is that as long as Nanking will do nothing to aid the Mongols, it is not up to North China to finance the relief. Pao is doubtful of any help but is considering a trip to Nanking should it look as though some relief organization was considering giving help to the Mongols.

Pao stated to this office that the Mongols had given up hope of Nanking providing assistance against Japanese aggression but that the National Relief Commission, headed by Chu Ching-lan, might be persuaded to come to their aid with food or money. Chu, it will be remembered, is a well known official not affiliated with any political clique who has held various positions in relief organizations and has administered charity funds for many years without criticism.

The condition of the Mongols in Suiyuan has been made worse by the attitude of the Suiyuan authorities, who as part of their intrigue to set up the new Mongolian Political Council (see G-2 Report No. 9321, item 6) in opposition to the one at Pailingmiao have been keeping food and supplies from entering Inner Mongolia through Kweihwa.

Despite these efforts the new Council is making no progress. General Pao states that save for a very few of the Mongol Princes and the Suiyuan Tumut Banners, which have become agricultural and hence almost Chinese in their characteristics, the Mongols supposed to be under the new Council are still loyal to the original Mongolian Political Council at Pailingmiao. He reports that with these exceptions all the other Princes and Chiefs have sent representatives to Te Wang's palace reaffirming their loyalty to the Pailingmiao group.

Some of these representatives state that because of the threats of the Chinese officials in Suiyuan they will have to act outwardly as though they were falling in line with the plans of Fu Tso-yi and Yen Hsi-shan, but that actually they were still loyal to Te Wang and the Pailingmiao Council. They further stated that should trouble break out in Inner Mongolia they would fight with the rest of the Mongols against the Suiyuan officials and the few recalcitrant Mongols who are willing to accept Suiyuan money and join the new Council.

The situation in Inner Mongolia vis-a-vis the Japanese remains the same. Te Wang has been forced to accept the troops of Li Shou-shin from Dolonnor who are now in possession of Changpeihsien as previously reported. Despite the fact that Li is nominally under Prince Te, the Mongols say that he conducts himself independently and usually fails even to inform Te Wang of his plans and actions. Li's Japanese staff officers, the deus ex machina of the expedition, have gone to Dolonnor for a conference but are expected back in Changpeihsien in a few days.

The military mission of the Kuantung Army, which has been in Te Wang's Palace at Naranboluk for some months, wintered there much to the discomfort of Prince Te and his family.

According to the Mongols this mission is not as important as the one in charge of Li Shou-hsin's forces.

All Mongol sources are very pessimistic regarding the future. The famine conditions which they are facing are bound to be the most severe in the past fifty years. In addition to this they state that when the snow melts they expect greater Japanese activity than before and with no support from Chiang Kai-shek nor from the Chinese officials of North China, they consider their case well nigh hopeless.

7. Sino-Japanese Relations.

The general situation in eastern Asia is for the time being calm. The explosion in Tokyo, which requires considerable adjustments to be made in Japanese policies, has given China a breathing spell, although no one expects this to last very long. Comparative freedom from interference should give the Chinese a fine opportunity to clear up the communist mess in Shensi and perhaps establish Central Government control there. But there are no signs of any change in the classic routine, - surround the area, hope for the best, and do all the fighting in the newspapers. The only indication of unusual activity in building up the national defense is the move to have various localities buy airplanes to present to Chiang Kai-shek on his 50th birthday. With the mutiny in Tokyo and the stiffened attitude of Russia, the chances that Japan will start anything there before finishing her meal in China are distinctly lessened, and more and more it seems that China will ultimately have to depend on herself. Meanwhile no progress is being made in saving the North, holding the gains in Szechwan, or uniting with the Southwest. The outlook continues to be very gloomy.

The fact that both the Japanese Ambassador and the Military Attache are to be changed in the near future leaves the question of Sino-Japanese relations rather at loose ends. Mr. Arita is now conducting a Consular conference in Tientsin and has announced that he will not come to Peiping. Therefore the mountain goes to Mahomet and Generals Chin Te-chun, Mayor of Peiping, and Hsiao Chen-ying, Mayor of Tientsin and chief adviser to Sung Che-yuan, have gone to Tientsin to meet and entertain Arita.

Sung is at Paotingfu, the provincial capital, and it seems likely that he will stay there. Rumors are heard that Chin may take over completely in Peiping and Sung remain in Paotingfu. Chin is considered not a bad fellow by conservative and able Chinese opinion, but whether he is more acceptable to the Japanese than Sung Che-yuan is not known. Hsiao is generally considered the turtle in the North China woodpile and it is quite possible that he may have his own eyes still fixed upon Peiping, though it is known that the Tientsin revenues are much more attractive bait. He is known to have stated at a conference of public officials in Tientsin that there was no reason why the foreign concessions should profit from the vice and gambling trade of Tientsin and that he intended to open up the Chinese city as well to these profitable business opportunities.

There may be nothing to such internal political rumblings but, as mentioned before in these reports, it is not clear how Sung Che-yuan can remain in Peiping for very long. Sung, it will be recalled, was one of the few Chinese generals who actually resisted the Japanese along the Great Wall. In addition to this, he was unceremoniously evicted from his post as Chairman of Chahar by Japanese pressure on Nanking. Now he is believed to be the mask behind which Hsiao Chen-ying is working until the latter becomes strong enough to assume the stage as a star in his own production.

With reference to the seeming static condition in North China, Major General Isogai, Military Attache to China, after a short visit to Tientsin and Peiping made a public statement on March 15th to the effect that "Japan cannot much longer tolerate the present unsatisfactory situation" there. General Sung was not attacked; in fact General Isogai rather inferred that Sung was doing well enough, but apparently there are still too many strings tying the North to Nanking. The Japanese Army is burning to improve the lot of the poor farmer in North China, whose degradation they say is entirely due to the Kuomintang, the Blue Shirts, unscrupulous officials - Chinese of course - and interference by the Nanking Government.

Such eminent economists as Lieut. Colonel Ishii, assistant chief of staff of the Japanese garrison at Tientsin, have noted the same conditions, and now that a major general has looked over the situation and reached a decision, action should not be long delayed. It is believed, however, that the Japanese Army will have to consolidate completely its position at home before making greater demands upon China in general and North China in particular.

Some progress in Sino-Japanese relations, however, is being made and it has been announced that effective May first through goods traffic will be resumed between Peiping and Mukden. When this arrangement goes into operation it will be the first through goods traffic on this line since the Japanese occupation of Manchuria.

The agreement was negotiated between Mr. Chen Chueh-sheng, the Japanese born Director of the Peiping-Mukden Railway, and Mr. Sakai, who represented the South Manchuria Railway.

Joseph W. Stilwell

SVC

Joseph W. Stilwell
Colonel, Infantry
Military Attache

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COMMENTS ON CURRENT EVENTS

March 28--April 10, 1936

RECEIVED G/2 W. D. MAY 5 1936

1. The National Government:
   - Chinese Ambassadors Leave
   - Ambassador to Japan
   - Inspecting Commissioners Recalled
   - Changes in Finance Ministry
2. Kung's Economic Recovery Program
3. Yangtze Sailings Suspended
4. Wang Ching-wei Assassination Plot
5. Loan for Szechwan
6. Open Door in Manchuria
7. Soviet-Outer Mongolia Pact
8. Smuggling in Tientsin
9. Sino-Japanese Relations

1. The National Government:

Chinese Ambassadors Leave.

Dr. Wellington Koo (Ku Wei-chun) and Mr. Liu Wen-tao, Chinese Ambassadors to France and Italy, sailed from Shanghai for their posts in Europe on March 26th. Both these diplomatic officers have served as Ministers in the respective countries to which appointed Ambassadors. Their return to China was to make sure that they would be promoted and retained.

Ambassador to Japan.

Hsu Shih-ying, the new Chinese Ambassador to Japan (see G-2 Report No. 932, item 1), presented his credentials to the Japanese Emperor on April 6th. Hsu was a member of the Anfu (pro-Japanese) clique in the early days of the Chinese Republic and may be expected to be very friendly and "sincere" in his relations with the Japanese.

Inspecting Commissioners Recalled.

As part of the retrenchment program, the Ministry of Foreign Affairs has decided to make some changes in the special representatives which have been stationed in various parts of the country. The six Investigating Commissioners for Foreign Affairs have been recalled and some changes made in the ranks of the four Special Commissioners for Foreign Affairs. According to Chinese sources the new set-up will be as follows:

Mr. Chang Hsi-kang....	Stationed in Chengtu - Szechwan and Sikang.
Mr. Kan Chieh-hou	Stationed in Canton - Kwangtung and Kwangsi.
Mr. Wang Chan-chi	Stationed in Yunnanfu - Yunnan and Kweichow.
Mr. Lo Chia-heng	Stationed in Peiping - Hopei and Chahar.

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The duties of these Special Commissioners are not very arduous if their work can be judged by the activities of Dr. Chang Hsi-keng, the pleasant and cultured incumbent of the Peiping office, who has just been ordered to Chengtu. Dr. Chang has mixed with the foreign diplomatic group and trys to keep in touch with what the Japanese are talking about to Hsiao Chen -ying and other henchmen of Sung Che-yuan, but the local Chinese officials do not take him seriously.

Changes in Finance Ministry.

As a result of the joint revision of the Organic Law of the Ministry of Finance by the Codification and Finance Committees of the Executive Yuan, there have been a number of changes recommended which will be referred to the general meeting of the Legislative Yuan for consideration. Under the new plan the Ministry of Finance will retain the Customs and Internal Revenue administrations but the Inspectorate of Salt Revenue will be reorganized as the Salt Revenue Administration under the control of a Director and Vice-Director.

3. Kung's Economic Recovery Program.

Dr. H. H. Kung (K'ung Hsiang-hsi), the Minister of Finance, has been much in the public eye lately because of his speeches on economic recovery in China. His latest speech on March 31st, given at the memorial service at Kuomintang Headquarters in Nanking, gave six cardinal points of his recovery program, as follows:

1. Concentration of nation's capital for productive purposes.
2. Development of rural industries.
3. Furtherance of productive reconstruction enterprises.
4. Sponsoring of productive education.
5. Adoption of labor conscription.
6. Promotion of the frugal movement.

The first point is in line with governmental control of finances and the control of as much money as possible by a few of the higher officials. The second point is worthy of note and deserves all the support the National Government can give it. The third is assumed to include the promotion of sericulture, animal husbandry, cotton growing, etc. Money spent along this line should do much to help China. The fourth point mentioned is not entirely clear, unless Dr. Kung means the establishment of agricultural and industrial schools. The fifth appears to be a system whereby the Government can get dykes, public works of all kinds and government building done by conscripted labor as was done in the days of the Empire. This plan is certain to meet with opposition from the business element. The sixth point seems hardly necessary since the Chinese are the most frugal people in the world with the exception of the wealthy officials like H. H. Kung himself, who could learn much as to frugal living.

3. Yangtze Sailings Suspended.

Due to low water on the upper reaches of the Yangtze River above Ichang all the large river boats have been forced to cancel their sailings from Hankow.

4. Wang Ching-wei Assassination Plot.

Quite a sensation has been created in government circles in Nanking following the revelation of plots to undermine the Central Government which came to light in the indictment against the six suspects in connection with the attempted assassination of Wang Ching-wei, former President of the Executive Yuan, on November 1, 1935 (see G-2 Report No. 9235, item 5). The indictment states that Generals Chen Ming-shu and Li Chi-shen (see G-2 Report No. 9165), who were connected with the "Fukien Rebellion" of 1933, were the prime movers in the plot.

It appears that the original intention was to kill General Chiang Kai-shek, but after two unsuccessful plans the plotters decided to concentrate on Wang Ching-wei as he was more accessible. The indictment contends that Generals Chen and Li believed that the only way they could revive their secessionist movement was to create widespread disturbances which would follow in Nanking as the result of the killing of Chiang Kai-shek and Wang Ching-wei.

5. Loan for Szechwan.

On March 27th the Legislative Yuan adopted regulations governing the floating of a Rehabilitation Loan for the province of Szechwan. The loan will be for $15,000,000 and will bear interest at 6 per cent, payable on March 31st and September 30th of each year. The loan will be secured on the state revenues (if and when collected) of the provinces, and it would seem that this may involve some high finance before the loan is due for redemption in 1951.

The problem of successfully handling the loan will be made more difficult by the fact that the land taxes and some of the other lesser taxes for Szechwan have been collected some thirty years in advance. The officials connected with the payment of interest on this new loan are in for some knotty financial puzzles as to where the money will come from. The difficulty has been made greater by the Government campaign against opium in that province, which has decreased the production somewhat with a consequent lessening of tax revenue.

The marvelous thing about China is that no matter how hard an area has been squeezed of its revenues, there always seems to be some more available to the ingenious official, who can invent a fresh scheme for taxing the populace. So it is presumed that some method will be devised to secure the necessary revenues in Szechwan.

6. Open Door in Manchuria.

The Mukden offices of the Standard-Vacuum Oil Company was closed on March 31st, and the Asiatic Petroleum Company is busy preparing to shut down operations. These two large foreign firms have been forced to cease business due to the enforcement of the oil monopoly by the Japanese-advised Manchoukuo Government.

7. Soviet-Outer Mongolia Pact.

Much excitement in the Far East has been caused by the announcement that the Soviet Union and Outer Mongolia had concluded a reciprocal treaty, signed on March 12th. This treaty is stated to provide for reciprocal military aid in case either country is attacked by a third party.

The Japanese Ambassador when informed of the treaty immediately advised his home government, and the Manchoukuo Ministry of Foreign Affairs issued a statement on April 7th which is reported by the Japanese press as follows:

> "The Soviet Union, which is not a signatory of the Nine Power Treaty, has been taking an attitude that she is in a position to encroach upon China, although Mr. Stalin declared that the Soviet Union, which is a member of the League of Nations, will not take even an inch of any other country's territory.
>
> "Since the Soviet agreed to respect China's sovereignty in Outer Mongolia as evident from Article V. in the Sino-Soviet Treaty, which was concluded in 1924, it has been generally supposed that the Soviet will not station troops in Outer Mongolia.
>
> "The Soviet, however, clearly has shown its intention of seizing Outer Mongolia with the conclusion of the Reciprocal Treaty, which will serve as a camouflage.
>
> "Outer Mongolia is in intercourse only with the Soviet Union and the conclusion of the treaty means virtual annexation of Outer Mongolia by the Soviet Union.
>
> "The fact that the Soviet is conniving with Outer Mongolian militarists, who are trampling upon the wishes of the people, warrants the world's indignation.
>
> "The Treaty, which conflicts with Articles IV. and V. in the Sino-Soviet Treaty, aims at the creation of a base for the sovietization of East Asia in Outer Mongolia.
>
> "The Nanking Government, however, is silent toward the conclusion of the treaty. If the Nanking Government, which is also indifferent to the operations of the Communist troops in Shansi Province, continues to maintain silence the Manchoukuo authorities will be compelled to believe that a secret agreement was concluded between China and the Soviet Union for collaboration against Japan and Manchoukuo, with Outer Mongolia and Sinkiang Province as a present for Soviet assistance.
>
> "This country will take a move in co-operation with Japan for the defense of East Asia against Communism.

"As a neighboring country Manchoukuo is greatly interested in Outer Mongolia. If the Soviet Union is permitted to consolidate its influence in Outer Mongolia Manchoukuo is entitled to a similar position in the region.

"It is needless to say that this country will be forced to take the necessary measures for the security of its existence in case it is menaced by the Red influence in Outer Mongolia.

"With the conclusion of the Soviet-Outer Mongolian Reciprocal Treaty, Outer Mongolian troops on the border became extremely provocative against the Japanese and Manchoukuo frontier guards."

Following this the Japanese Consul-General in Nanking called upon General Chang Chun, the Chinese Minister of Foreign Affairs, and urged upon him the necessity for the full assertion of Chinese rights and stated that Japan was watching closely the actions of the Nanking Government. General Chang Chun assured the Japanese Consul-General that no secret agreement existed between China and Soviet Russia.

In addition to this statement, the Chinese Foreign Office lodged a protest with the Soviet Government declaring that the Chinese Government can under no circumstances recognize such a Soviet-Outer Mongolia agreement and cannot be bound by it. The protest recalled that the Soviet Government unequivocally pledged itself in Article 5 of the Sino-Soviet Agreement of May 5, 1924, to recognize Outer Mongolia as an integral part of China and to respect China's sovereignty therein. Nanking believes that the action of the Soviet Government in concluding this agreement with Outer Mongolia constitutes not only an infringement on China's sovereignty but also a breach in its solemn pledge to the Chinese Government.

8. Smuggling in Tientsin.

The peculiar administrative muddle caused by the setting up of the "Eastern Hopei Autonomous Government" under Japanese supervision in the area known as the "Demilitarized Zone" is growing worse. Given the opportunity of a lessened Maritime Customs supervision, Chinese, Korean and Japanese smugglers have been carrying on a rampant clandestine trade in the Luantung area.

Chinese sources state that this has caused a decline in the import of Japanese goods but this is not true. If they would say that it has caused a decrease in the amount shown on the Customs records as being imported, they would be correct, for practically all the goods being smuggled in come from Japan. The game seems to be to see who can beat the Chinese Customs out of the most duty and the competition is keen. Yin Ju-keng who was placed at the head of the bogus government by the Japanese, is making the most of his opportunities in an effort to force the Nanking Government into giving him a larger cut from the Maritime Customs revenue.

There are firms now operating in Tientsin who will guarentee to deliver goods to the purchaser at a cheaper price than they can be obtained via the regular channels through the Maritime Customs. It can readily be seen what this will do to the Customs revenue of Tientsin. The Japanese have no interest in the matter, for the cheaper their goods can be put on the North China market the better they are pleased. The Chinese merchants are ever anxious to make more money by buying for less and the smugglers are laying away a nice profit. The only one that suffers from this anomalous situation is the National Government, which sees its Customs revenue for the port of Tientsin being cut every day by a well organized smuggling racket which operates under Japanese protection.

9. Sino-Japanese Relations.

Despite the hope of the Nanking Government to the effect that Sino-Japanese relations might be handled in Nanking between the proper representatives of the two countries, there is little evidence that these hopes will be realized. The new Japanese Military Attache, General Kita, has not reported for duty and the Ambassador to replace Mr. Arita (see G-2 Report No. 9329, item 3) has not been officially announced.

The most important center of Sino-Japanese relations remains in North China where the Japanese have adopted a new policy. For some time various agencies were at work there, including the Japanese Garrison Headquarters in Tientsin, the Special Service Department of the Kuantung Army, envoys like Doihara and various and sundry Japanese staff officers with their pockets full of money, each striving to stir up trouble for China and glory for themselves. There were several instances known to this office where the Japanese interests clashed and there were no doubt many other like cases. The two previously reported were the disagreement between Doihara and Colonel Takahashi, the Military Attache in Peiping (see G-2 Report No. 9251, item 7), and the conflict between the Tientsin Headquarters and the Kuantung Army staff when the latter made preparations to take over the Peiping Mukden Railway without knowledge of General Tada (see G-2 Report No. 9257, item 7).

Perhaps these incidents taught the Japanese a lesson for their present policy seems to be to concentrate the handling of diplomatic-military affairs in the hands of a special officer who while working under the General Staff in Tokyo will be "attached" to the Japanese Headquarters in Tientsin. This important person is Major General Matsumuro who it was first announced would replace Doihara as head of the Special Service Department of the Kuantung Army. Apparently this is not the case and Matsumuro will be in Peiping on a mission of his own but connected with the Japanese Garrison in Tientsin. With the approaching increase of this force to a greater strength and importance, it would look as though North China will see thrust upon her a counterpart of what the Kuantung Army is in Manchuria.

General Matsumuro arrived in Peiping on April 6th and was met at the station by a large gathering of Chinese and Japanese officials. His arrival puts on a more official base the fact that the Japanese Army will now definitely attempt to direct the policy of North China and dictate to the Chinese officials. Doihara always refused to admit his official mission but Matsumuro makes no bones about the affair, though the Chinese have not intimated in any way that the Japanese General will advise the Hopei-Chahar Council.

Immediately upon his arrival General Matsumuro gave an interview to the press which is quoted below as being a fair forecast of his views on Sino-Japanese relations in general and North China affairs in particular:

> "North China is at present facing a most dangerous and critical situation, owing to the fact that the Communist 'devils' have already reached Shansi, and also to the fact that certain shortsighted officials are still intriguing and thereby imperilling the whole situation.
>
> "My duty here is to throw complete light on the situation in North China and, in cooperation with the officials and people of North China, work for its improvement, to the end that we may lay the foundations for peace in the Orient.
>
> "At present North China is in an extremely critical situation, owing to the approach of the Communists in Shansi and the intrigues of shortsighted officials. Owing to these factors, the people of North China are in desperate straits and their distress and sufferings are acute. As I see it, the people of North China must rise up to defend themselves against the menace of Communist 'devils' and endeavor to save themselves.
>
> "The Japanese North China Garrison has the important duty of protecting Japanese lives, property and interests in North China. This being the case it cannot overlook the menace now manifesting itself with the approach of the Communists.
>
> "I hope that the present situation will be clarified as quickly as possible. It is my earnest desire to see established in North China a 'peaceful land' in which the people will not be victimized and sacrificed as they are at present.
>
> "To see this hope realized, the Japanese Empire must be ready to pay a price. It is ready to pay any price, to make any sacrifice, that may be necessary. The Japanese people are completely united in opinion and determination on this point.
>
> "Finally, I hope that the people of North China will realize that any policy which is not undertaken in cooperation with Japan will ruin the country and the people. I hope that the people of North China will understand the true intentions of the Japanese and will cooperate in saving the country and defending it against Communism."

The day after his arrival, General Matsumuro gave another interview to the press. In this he gave two parables, reported by the press as follows:

"He said as he saw China she was a patient suffering from many diseases. The patient, when she recovers, can be used for many good purposes, purposes good for the well being of the world and human kind. To cure the patient two measures could be adopted. She needed first a physician who was especially expert and also, not so urgently, other doctors. What was urgent was to determine the chief physician, a physician who would cure the patient with sincerity.

"Many other doctors were necessary to make suggestions and help the chief physician but if too many doctors tried to help at the same time there would be difficulties. China was the patient and if the doctors came to different opinions it would be hard work to cure the patient.

"The second thing necessary for a cure was that the patient rely on and trust in the physician. If the patient changed his doctor from day to day his recovery would be hopeless. The doctors must offer their best services sincerely and honestly.

"This ended the parable of the physician, General Matsumuro saying he would speak more concretely. Japan could be likened to a lake and China to an open field. This lake is reaching the point where it must overflow. The waters of the lake had been charging for seventy years and the waters must be regulated. There were two ways of doing this.

"One way was to build up barriers to hold back the water but if this was done with sandbag barricades the barriers were sure to be destroyed by the water. General Chiang Kai-shek seemed to be building up barriers with sandbags and the waters of the lake tend to overflow and rush into the field, making it desolate. Some wished to build the same barriers but of cement. This was stronger but still the barriers would be easy to break away and allow the water to flow out.

"The other way to regulate the rising waters was to arrange proper drainage. If the water was induced to flow into proper prepared channels then the waters could be led to do good, to water the field and make it fertile. Regulated in this way the waters would do good for all, good for drinking, good for the fields, good for the electric plants. The waters would bring prosperity and happiness for all. It must have sluices and valves to regulate it and prevent waste. Honesty and sincerity was the basis for such a scheme.

"In this way he thought the patient could be saved for in the event of the death of the patient it would be an unhappy situation for the whole world. These, concluded General Matsumuro, were his personal opinions."

The General gives these parables as his personal opinion but it is no doubt official. Matsumuro is convinced that he is the doctor and that China needs Japanese medicine in large doses. He may be relied on to do his utmost to make an operation necessary and to make it successful. Whether or not the patient likes the medicine, or dies as the result of the operation is no concern of Matsumuro nor of the country which sends him out. The Japanese Army which murders its own officers with such good grace can hardly be reckoned to give much consideration for the good of anyone but themselves and certainly we may expect more coordinated action in North China with the arrival of General Matsumuro.

For and in the absence of the Military Attache:

S. V. Constant
S. V. Constant
Major, Cavalry
Assistant Military Attache

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COMMENTS ON CURRENT EVENTS

April 11--24, 1936

RECEIVED G/2 W. D. MAY 19 1936

1. Japanese Pressure Again Increases in North China.
2. Manchoukuo and East Hopei.
3. Smuggling Problem Approaches Crisis
4. Miscellaneous News Items:
    - a) New Constitution
    - b) Examination of Foreign Service Officers
    - c) Release of Dr. Bosshardt
    - d) Conspiracy in Manchoukuo
    - e) Inner Mongolia
    - f) Extraterritoriality in Manchoukuo.

1. Japanese Pressure Again Increasing in North China.

After a period of comparative quiescence and relaxation of tension lasting since the end of November 1935, when the Japanese succeeded in setting up the Chahar-Hopei autonomous regimes, tenseness is again beginning to be felt in Sino-Japanese affairs. The breathing spell given China by Japan during the past few months resulted from two factors; first, a certain measure of Japanese satisfaction in the *fait accompli* of Chahar-Hopei autonomy although it did not reach the full extent of Japanese ambition, which was to separate all North China from Nanking control; second, the uncertainties of policy at home resulting from the recent Tokyo military disturbances. The new tension beginning to be felt is likewise the result of two factors; first, Japanese fears that Nanking is using this period of relief from active Japanese pressure to so increase its control over Shansi and Shantung that eventual inclusion of these provinces in the Japanese controlled autonomous zones may be rendered difficult or impossible without recourse to open war; second, the outcome of the Tokyo crisis seems to indicate still greater ascendancy of the radical militarists in Japanese politics, thereby assuring renewed support for an aggressive policy in China.

As yet there have been no overt acts resulting from this increased tension. But possibilities of real trouble arising when the Japanese carry out their decision to increase their North China garrisons are very evident, though what form this trouble may take is as yet unpredictable. The most dangerous element of the increased garrison plan is the reported decision to place a large garrison in southern Hopei on the Shansi border with headquarters at Shihchiachuang. The nominal excuse for such a garrison is to prevent communist incursions from Shansi into Hopei. The real effect of course will be toward nullifying the efforts of Chiang Kai-shek to include Shansi in the Nanking domain, by means of a potent Japanese military threat directed at Yen Hsi-shan's capital at T'aiyuan.

In view of past Japanese performances, it is very probable indeed that the garrisons at Shihchiachuang will shortly be "forced" by the "communist threat" or some other pretext to enter Shansi. When this occurs the stage will be set for the next serious Sino-Japanese crisis. It is said on all sides that the Nanking Government is really determined to resist by force of arms any penetration by Japanese troops into Shansi or Shantung. The unanimity of opinion as to this resolution is really impressive, - so impressive as to be almost convincing to the most skeptical observer. It is said that Chiang and his party have realized that attempts to appease the Japanese appetite by sacrificing large parts of China are fruitless. They have realized that this appetite is insatiable and have decided to resort to armed defense and appeal to world opinion as a last resort to check the invader in case of any further aggression.

✓ The projected increase of the Japanese Tientsin garrison to 5000 men is interpreted as a threat against Shantung. Certainly it cannot be justified by any danger of disorder among the supine populace of Hopei or by any prospect whatever of attack by Central Government troops.

2. Manchoukuo and East Hopei.

Mr. Chih Tsung-mo, "Prime Minister" of the East Hopei regime, arrived in Hsinking April 15th for the purpose of negotiating a "treaty of amity" between Manchoukuo and East Hopei. Accompanied by a secretariat of five, he was received by the highest Japanese and Manchoukuo officials, culminating in an audience with the Emperor on April 18th. The degree of mutual recognition between Manchoukuo and this anomalous state is noteworthy.

It will be remembered that negotiations between Japan and Sung Che-yuan for the incorporation of the East Hopei government in the Chahar-Hopei regime have always been wrecked on the same rock. That rock is the Japanese demand that the Chahar-Hopei government accord the same recognition to Manchoukuo as does the East Hopei government, as well as regard itself to be as independent of Nanking as does the East Hopei regime.

As time goes on these conditions grow more impossible of fulfilment because of the ever closer relationship of East Hopei to Manchoukuo as well as that government's increasing withdrawal from the rest of China. If Sung Che-yuan had accepted the Japanese conditions last December, East Hopei might have been united to his regime with but small concessions to Manchoukuo. But compliance with these demands at present would result in a practical inclusion of Chahar-Hopei in the Manchoukuo system. Therefore there is little prospect of the breach being healed except by direct force.

3. Smuggling Problem Approaches Crisis.

Up to the beginning of this year smuggling across the Manchoukuo border was the affair of small calibre adventurers out to make a profit on such consignments of goods as one individual could handle. Last winter, however, a peculiar circumstance seems to have called the attention of big time capital to a source of large and sure profits. During the exceptionally severe winter a large number of ships were held by ice some few miles off the shore in the Shanhaikuan-Chinwangtao-Peitaiho area. The shipping people soon found that their cargoes, instead of being forced to wait till the ice broke, could be speedily sent ashore by small boat, sled or cart according to local conditions and landed on shore without undergoing the usual customs formalities at the ports. The only troops and constabulary in this area are of course those of Yin Ju-keng's East Hopei administration, owing no allegiance to the government of China and with no interest in supporting the Maritime Customs. An arrangement with Yin's troops was promptly made whereby in exchange for a fixed percentage of the regular customs duty on the smuggled cargoes, said to be twenty per cent, the troops would protect the landing and shipping of the contraband goods.

Since the ice went out this activity has increased to almost incredible proportions, not only seriously decreasing customs revenues but providing disastrous competition with the Chinese silk, sugar and paper industries. Smuggling is mostly in sugar, rayon and cigarette paper, of which the sugar is the most serious. Sugar from the North China ports is now reaching even Shanghai at a price of $7.00 per ton lower than the tax-paying South China product. It is reported that the sugar market in the South is approaching a state of panic. The Customs service is helpless against the armed connivance of the local military. The following paragraph from the "China Weekly Review" gives a correct impression of the general situation though the figures quoted are of course mere estimates:

> "Numerous reports bearing on this situation have appeared in the Review in recent weeks, but of special interest was a report in the North China Star on March 31 stating that eight Japanese ships, carrying huge quantities of goods, were anchored at Peitaiho beach on the preceding Sunday while a horde of Japanese and Korean smugglers were engaged in transporting the cargo, mostly sugar and wearing apparel, ashore. The report stated that Peitaiho beach, normally a pleasure resort and not an open port, now resembled a booming town. Ricksha coolies, fishermen, watchmen employed at foreign and Chinese beach houses had become stevedores and were reaping a rich harvest in working for the smugglers. Japanese ships were coming and going at will and traffic in contraband merchandise was in full swing. Space is not available for reference to all of the reports on the subject which have appeared in the Chinese newspapers since the publication of the last reference in these columns on March 28th. However, a few of the reports are of special interest: The Sin Wan Pao stated that on April 4 the Japanese smuggled 3,670 tons of sugar, 400

> bales of artificial silk and 1,321 tons of cotton cloth into Tientsin by way of Liusouying and Peitaiho. The official Central News in a report from Tientsin on April 6 said that smuggling in March had decreased somewhat from February, the amount estimated in March being 20,600 tons while the amount estimated for February had been 3,600 tons higher. Another dispatch through Central News said that smuggling through the East Station on April 3 included 600 tons of sugar, and 40 tons of rayon. On April 1 the amount smuggled into North China by Japanese subjects included 640 tons of sugar and 30 tons of artificial silk. The Ta Kung Pao added another item to the list of smuggled articles, cigarette paper, and said that smuggled articles at Peitaiho exceeded 900 parcels a day, 1,000 parcels at Nantashih and 2,000 at Chinwangtao."

There have been many authentic instances of Customs officials, both foreign and Chinese, being seriously beaten by smugglers and gendarmerie when they attempted to interfere with these operations.

4. Miscellaneous News Items:

(a) New Constitution.

May 5th has been set as the date for promulgation of the new National Constitution.

(b) Examinations of Foreign Service Officers.

In an effort to weed out incompetents from the ranks of diplomatic and consular officials, these officers are all to be required to undergo an examination in appropriate subjects by an examination committee.

(c) Release of Dr. Bosshardt.

This Swiss member of the China Inland Mission was released by the Hsiao Ke - Ho Lung communists on Easter Sunday after having been in their hands eighteen months. He is said to have suffered few serious physical ill effects from his long and strenuous ordeal. His fellow captive, Hayman, was released some months ago.

(d) Conspiracy in Manchoukuo.

According to a Hsinking communique issued by the Kuantung Army on April 13th, several of the leading Mongol officials in North Hsingan Province of Manchoukuo have been arrested by the Japanese. They are charged with a conspiracy to restore the independence of the Mongol portion of Manchoukuo.

The most important persons arrested were as follows:

General Ling Sheng, Governor of North Hsingan Province.
General Fu Li, Chief of Staff of North Hsingan Army.
T'ien Te, Police Bureau official.
Han Lin-t'ai, Secretary to General Ling Sheng.
Tso Te Hsi T'u, staff officer in North Hsingan Army.
Chih Hung-t'ai, police official in Hailar.

As far as is known this group are all Barga Mongols, and the ones with Chinese names are Mongols who have adopted a Chinese name for convenience. The Japanese claim that the conspirators had been negotiating with Outer Mongols. Certain Chinese sources believe that it was an independence movement to break away from Manchoukuo and from Japanese domination. While the latter theory is believed to be more likely, no definite information is available.

(e) Inner Mongolia.

Prince Te, who has been at Pailingmiao for the past ten days, has returned to his palace at Naranboluk. He reports that while Suiyuan has suffered also due to the unusually severe winter, the conditions there are not as bad as in Chahar. The main difficulty in Suiyuan is the fact that the Chinese authorities, in their efforts to break up the Mongolian Political Council at Pailingmiao, have been stopping commercial shipments of food from Kweihwa to the Mongols.

The snow continues in Inner Mongolia and communications are so bad that it has been decided to postpone the Third General Meeting of the Pailingmiao Council. The Suiyuan Council recently appointed by Nanking under the auspices of Fu Tso-yi, the Suiyuan Chairman, has held only a few half-hearted meetings. The result of the formation of the new Council is expected to concentrate more and more the activities of the Pailingmiao Council at the palace of Prince Te in Chahar. The offices are still at Pailingmiao but it is quite possible that at least a branch may be opened in Chahar when cross country travel becomes possible again in Inner Mongolia.

(f) Extraterritoriality in Manchoukuo.

✓ The government of Manchoukuo has announced the abolition of extraterritoriality in Manchoukuo effective in May. A special report on this act will be furnished when fuller details are received and it is seen what the reaction of foreign powers will be, if any.

For and in the absence of the Military Attache:

Bernard R. Tormey
Bernard R. Tormey
Captain, Field Artillery

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COMMENTS ON CURRENT EVENTS

April 25 - May 8, 1936

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1. The National Government:
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    - Another Loan
    - Chinese Delegate
    - War Talk
    - Purchase of Airplanes
2. Conditions in Szechwan
3. Another Fukien Rebellion?
4. New Japanese Ambassador
5. Nakayama Case
6. Central Bank Offices for United States
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8. Manchoukuo - German Trade Agreement
9. New Ports for South Manchuria Railway
10. Inner Mongolia
11. Situation in North China

1. The National Government:

Readjustment Loan for Chekiang.

The Chekiang Provincial Government has submitted plans for the issuance of a $60,000,000 silver readjustment loan. These have been passed by the Executive Yuan and were passed by the Central Political Council on April 30th.

Most of the loan will be used to readjust the outstanding debts of the province, and the remainder will be spent for reconstruction enterprises, as well as to cover the deficit incurred for the present fiscal year. A sinking fund will be established from the revenues of the salt surtax, the special reconstruction tax and the ordinary business tax of the province.

The loan is divided into four classes of bonds which are redeemable in from 16 to 20 years at varying rates of from 9 to 6 per cent interest. The plan for the loan was worked out under the supervision of Mr. Kenyon Dzung (Cheng Yuan-fan), a Princeton graduate and recently in charge of the financial administration of the Peiping Municipality. He is one of the most able of the younger generation of Chinese officials and his work in Peiping saved much money which was diverted into the largest repair program for public edifices that has been seen since the time of the Emperor Chien Lung.

Another Loan.

Chinese sources state that the Nanking Government is making plans to issue a $40,000,000 silver loan to be known as the 25th Year Short Term Treasury Loan. The new loan is to be secured on the revenue from the stamp and tobacco taxes and will be redeemed in 16 months.

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The new Treasury Loan will be issued through the National Finance Development Corporation and will be subscribed by the different Chinese banks. It is not planned to put the issue in circulation on the bond market.

The Nanking Government gives the reasons for issue of the loan as being the necessity for money to carry on the rehabilitation work in the areas recently recovered from the communist bandits. This office believes that the money from the loan will be diverted to military purposes and to the running expenses of the National Government. It amounts to a forced loan from the banks designated to subscribe for the bonds.

Chinese Delegate.

On April 28th the Executive Yuan appointed Dr. Victor Hu, Chinese Minister to Switzerland, as the Chinese delegate to the conference for limitation of the manufacture of narcotics and drugs. This conference is to be held shortly in Geneva as one of the activities of the League of Nations.

With the daily increase of drug importation into China by the Japanese, the post of Chinese delegate to any conference on the subject of drugs or narcotics is not an enviable one. Should the delegate tell the truth regarding Japanese activities he would be sure to draw down the wrath of the Japanese upon his Government.

War Talk.

✓

A great amount of talk continues to be heard concerning the vast preparations that are being made by Chiang Kai-shek to fight Japan. Representatives of this office have recently been in the main cities of China from Peiping to Canton and along the Yangtze valley, and it is their opinion that Chiang is doing just enough to attempt to conciliate a certain radical element of the Chinese like Feng Yu-hsiang who wish to fight at any price, and yet not making enough preparations so that Japan will take definite action against him. In other words Chiang is trying to play both ends from the middle and stall off the evil day when he will be forced to fight or step down from the stage as China's "Great Man".

He is in a difficult position to satisfy these two opposite poles. He realizes that to fight now would mean certain defeat. He hopes that delay will allow him to make some military preparations and unify China, and no doubt hopes that some circumstance will arise such as a Russo-Japanese war which may render the making of his own final decision to risk all unnecessary.

Purchase of Airplanes.

From financial sources connected with the Government it is learned that at least thirty Curtiss-Hawk planes and ten Shrike planes have been purchased recently by Nanking. Certain Chinese officials were much perturbed after the purchase was made to find that both types have been declared obsolete and are not the latest models to be used by the United States Air Force.

The attitude of the British Air Attache toward the purchase of British planes by the Chinese Government is interesting. Chinese officials state that he tells them that British planes are too expensive for the Chinese. They are at a loss to understand this statement from the man who they thought was going to be very active in pushing the sale of British aircraft.

2. Conditions in Szechwan.

Political interest in Szechwan is centered about the illness of Governor Liu Hsiang. This sturdy militarist is now suffering not only from his old diabetes but what is said to be ulcers of the stomach that are so serious as to cause repeated hemorrhages. Rumors of his death are recurrent. At one time this spring the public in Chungking was convinced for over two weeks that Liu was dead and the idea was dispelled only by his personal appearance in that city. Liu is a feudal warlord of the old type who is loyal to Chiang Kai-shek in so far as it suits his interests, and whose loyalty is insured only by the presence of Nanking Divisions in his province. He retains considerable autonomy in his government of Szechwan and has maintained his own power by means of a military hierarchy bound to him solely by personal loyalty.

When he dies, which must be not far in the future, a critical situation will probably arise. Chiang Kai-shek is said to be determined to replace him as governor by one of Chiang's own personal clique. The new governor will of course depend solely upon Nanking support for his power in the province and is bound to regard the generals of Liu Hsiang's party with their troops as not only a nuisance to him but as a threat to his regime. He will be bound in all logic to attempt to reduce or disband the armies of these generals. Whether the generals will accept this without resort to force is doubtful. Apparently Szechwan is soon to suffer another period of internal disorder.

Residents of Szechwan, both foreign and Chinese, are still loud in their praise of the work done in the province by Chiang Kai-shek during the past two years. It was thought that his clean-up of vice, narcotics and ordinary filth in Chungking and Chengtu would last only as long as the Generalissimo personally stayed in the province. Apparently this was not the case as everyone says economic and social conditions were all tremendously improved and give every indication that the improvement is permanent. It is said that the relief of agriculture and industry from the burdens imposed by the endless civil wars of Szechwan has more than made up for the loss of opium business. Plenty of opium is still smoked in Szechwan but it is said that in less than two years the province has actually been transformed from one of the greatest producing areas to an opium importing one. Whatever the causes, Szechwan presents a picture of flourishing prosperity, in distinct contrast to most of the Yangtze basin.

There is considerable talk of the Chungking-Yunnan railway actually going through within a year. Several prominent Nanking-Shanghai bankers and railroad men are visiting Szechwan in that connection. Capital can be obtained from the French at any time for this line, the only hitch being the rather oppressive "conditions" under which the French will loan the money. What these conditions are was not divulged but their nature may readily be guessed.

3. Another Fukien Rebellion?

Information from Chinese official sources is to the effect that another "Fukien Rebellion" has been nipped in the bud. Following the defeat of Li Chai-sum (Li Chi-shen) and Chen Ming-shu early in 1935, many discontented politicians were left in Fukien besides those who fled to other places.

Since that time it seems that an organization has been formed called the National Revolutionary Committee with headquarters in Hongkong. Generals Li and Chen are said to be leaders in this movement which was to cause the overthrow of the present Nanking Government. It is believed that this organization was connected with the assassination plots against Chiang Kai-shek and Wang Ching-wei (see G-2 Report No. 9338, item 4).

4. New Japanese Ambassador.

Considerable surprise was caused by the recent announcement to the effect that Mr. S. Kawagoe, Japanese Consul-General in Tientsin, was to be appointed Japanese Ambassador to China to succeed Mr. Arita. It will be remembered that Arita was recalled to Japan almost as soon as he had reported, to be Minister of Foreign Affairs in the new Japanese Cabinet (see G-2 Report No. 9329, item 3).

Mr. Kawagoe's appointment is the more surprising since he has never served as a Minister but will be promoted directly from Consul-General to Ambassador. Perhaps his service in Tientsin and his close relations with the Japanese Army there may account for his quick promotion, but in any event Mr. Kawagoe is not ambassadorial material. His appointment is believed to be due to the fact that he will do exactly as the Japanese Army dictates and will sign any notes to China that the Japanese General Staff sees fit to draft for his signature.

Mr. Kawagoe sailed from Tangku on May 4th for Tokyo to receive his appointment as Ambassador. The date for his return to China has not been announced.

5. Nakayama Case.

The mystery surrounding the killing of Warrant Officer Nakayama of the Japanese Naval Garrison in Shanghai, which took place last October, remains unsolved. The Japanese at first were loud in their claims that it was a deliberate affront but little has been heard of this lately.

The Japanese connected with the Municipal Police in Shanghai have arrested several Chinese within the past few days and investigations were held behind closed doors. Some sources in Shanghai believe that it was a Chinese political plot and that Nakayama was the victim of a Cantonese clique which was endeavoring to embarrass Wu Tieh-cheng, the Mayor of Shanghai, by bringing the wrath of the Japanese upon his head.

The Chinese contention that Nakayama was killed by his own comrades is possible but not likely in view of the fact that his record was exceptionally good and his reputation in his unit was found to be above reproach. Information from official sources was to the effect that the Chinese arrested for the crime would be released for lack of sufficient evidence, but late press despatches carry the story that one of the suspects has confessed.

6. Central Bank Office for United States.

Financial circles report that the Central Bank of China will open a New York office which will be in charge of Mr. C. H. Wang, brother of C. T. Wang (Wang Cheng-ting) who was Minister of Foreign Affairs some years ago. C. T. Wang is leaving for the United States on May 19th supposedly to attend the convention of Rotary International in Atlantic City, but information from excellent sources is to the effect that he will go as a personal representative of T. V. Soong in an effort to interest American financial circles in loaning money to China.

There is no question that the Chinese are trying every possibility to secure loans from foreign governments in order that they may remain as independent of Japanese influence as possible. Loaning money to China at the present time is a dangerous gamble unless the country floating such loans is willing to protect them with armed force against the Japanese. Japan has placed her cards on the table and has indicated to the world that she will control China. Any other country loaning money to China may well find her loans declared worthless when Japanese control increases on the Asiatic continent. Then such a foreign country will have to face a financial loss or a war.

To make a long story short, suffice it to say that any country that lends money to China at the present time is investing it in a powder keg with the fuse already lighted.

7. China, Italy and England.

An interesting Italian angle to the Ethiopian trouble was discovered in a recent conversation with one of the highest Chinese officials. It seems that Chiang Kai-shek became worried concerning his relations with the Italians in case the British took a firm attitude toward Italy. Chiang has great hopes of help from the British through Sir Frederick Leith-Ross and hence did not wish to have too close relations with Italy.

In conversations with the Italian Ambassador, Chiang mentioned the possibility that England might actively oppose Italy's actions. The Ambassador took the view that England would not do this and stated that he believed Great Britain on the wane as a world power.

8. Manchoukuo-German Trade Agreement.

Much interest has been aroused in Chinese official circles by the news that a trade agreement has been concluded between Manchoukuo and the German Government. This understanding is stated to have been reached due to the efforts of Dr. Otto Kiep, the head of the German Economic Mission to the Far East (see G-2 Report No. 9313, item 6).

The Chinese Foreign Office appears much exercised over the event but the German Embassy had already informed Nanking regarding the impending arrangement and had stressed the fact that the arrangement was purely of a commercial character with no political significanse. Be that as it may, the very fact that an agreement has been made acknowledges some authority with which to exchange signatures. This point of course does not appeal to the Chinese who consider Manchuria as part of China.

9. New Ports for South Manchuria Railway.

According to Japanese sources it is expected that the Manchoukuo Government will shortly issue instructions which will authorize the free use of the ports of Yuki and Seishin by the South Manchuria Railway Company. The S.M.R. at present controls the port of Rashin which was opened last year. Most of the trade between Manchuria and Japan has been diverted to this latter port to the detriment of business conditions in Yuki and Seishin.

Aside from the commercial advantages which the S.M.R. will gain from having free use of the three ports, it will assist the coordination of transportation facilities in case of use by the Japanese Army.

10. Inner Mongolia.

The opening ceremony of the current session of the Mongolian Political Council was held at Pailingmiao on May 3rd. Prince Te, the Vice-Chairman, was in charge as Prince Yun had not arrived from the north. As only about half of the membership was present at the opening meeting, it was decided to wait for at least some of the absent members before starting the discussion of the many perplexing questions confronting the Council, one of which is said to be the removal of the meeting place to some location in Chahar Province.

Apparently the Chinese Government has evidenced some interest in the appeals of the Mongols for aid because of the famine conditions prevailing in that territory (see G-2 Report No. 9329, item 6). This is likely a last minute effort to hold the Mongols to China and may have some effect in this direction. Actually it seems peculiar that the Mongols have been trying to stay allied with China and Te Wang deserves the credit, as there is no doubt that his personal influence has been responsible for keeping a number of the other Princes in line for Nanking.

The Japanese continue to close in on Prince Te and the "mission" living at his Palace evidences no signs of living elsewhere. These Japanese officers and those on duty with the staff of General Li Shou-hsin in Changpeihsien make things very difficult for Prince Te and that individual deserves a great deal of credit for remaining as neutral as he has in a difficult situation.

Chiang Kai-shek has cast the Mongols loose to shift for themselves and their desire to remain loyal to China can be credited not to their loyalty to China but their desire for an independent Inner Mongolia. Te Wang has stated several times to a representative of this office that he knew all hopes for independence were lost should he join with the Japanese. On the other hand if Inner Mongolia could stay with China, the Mongols have always been able to out think and out fight the Chinese.

The danger point now as for some months past is just how long Te Wang can hold out against Japanese pressure. He must realize that at some date in the near future the situation will be reached where he will have to throw in his lot with Japan as an ally or accept the dregs offered a conquered chieftain.

11. Situation in North China.

Informal discussions are still being carried on, sometimes in Peiping but mostly in Tientsin, between officials of the Hopei-Chahar Political Council and the Japanese Army group headed by General Matsumuro. Neither side is giving out any information of value.

Major Imai, in charge of the Military Attache's Office of the Japanese Embassy in Peiping, and his assistant, Major Hamada, have made several indefinite statements about "informal talks regarding measures to be taken against Communists". There is some reason to believe that since General Matsumuro's arrival, the Japanese Military Attache Office is playing a distinct second fiddle in the matter of Sino-Japanese negotiations. Perhaps the trouble with Doihara and the former Military Attache will account for this and may have been one of the contributing factors in the General Staff decision to concentrate activities under one head -Matsumuro.

The Japanese have all been pessimistic regarding the fate of the "East Hopei Autonomous Government" under Yin Jukeng, and the Chinese have had nothing to say until May 5th when Mr. Chen Chung-fu, Chairman of the Foreign Affairs Committee of the Hopei-Chahar Council, gave out a press interview. In this he stated that an agreement had been reached for the abolition of the bogus regime "after all rehabilitation affairs have been completed". This is a little vague but perhaps the best he could do under the circumstances.

Mr. Chen further remarked that concerning other outstanding differences between Chinese and Japanese opinion in regard to affairs in North China, General Sung Che-yuan would return to Peiping shortly to start negotiations with General Matsumuro for the general readjustment of Sino-Japanese relations in North China. This again is rather meaningless for if the last few weeks have not been taken up with just this subject it is hard to see just what the subject of the various conferences could have been.

Almost concurrent with this statement to the press by Mr. Chen there appeared a report that the much discussed railway from Tsangchow on the Tientsin-Pukow to Shihchiachwang on the Peiping-Hankow line would be constructed with Japanese capital. This railway has been in the minds of the Japanese for some time, and the rumors of British and French money being used has been like a red rag to a bull. This may have been one of the points "decided" upon in Tientsin and as a reward the Japanese may have been willing to move on Yin Ju-keng to other fields and let Sung save his face by having nominal control over all of Hopei Province. This of course is merely conjecture and the next few weeks are expected to reveal the facts.

Another point which the Japanese are understood to be working on is the building of a railway from Tsinan (Chinanfu) in Shantung Province to Changte in northern Honan. The completion of these two lines which cross the two main north and south railways give the Japanese the routes they need to put troops to oppose the Chinese along the Yellow River if necessary, and to assist in blocking the threat of Russian advance through Chahar and Suiyuan.

The smuggling situation in the North is growing rapidly worse and is on the increase in other parts of China, with the possible exception of Shanghai, where the British influence is strong. The Japanese know it exists and do nothing to help the Chinese authorities. From all indications, the smuggling is being encouraged by Japanese officialdom and is believed to be a direct Japanese attempt to break down the efficacy of the Maritime Customs. So far the Chinese have been able to secure most of the Customs revenue even from North China and it is no small item in the national treasury. No better way to cripple Nanking exists than to cut off the stream of money which flows from the Customs receipts, and the Japanese are aware of this fact. If they can cut off most of the revenue from the North, Nanking will be more tractable in an agreement which will give them some of the Customs revenues rather than none at all. This is believed to be the aim of the Japanese.

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SVC

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COMMENTS ON CURRENT EVENTS

May 9 - 22, 1936

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    China Protests
    Yunnan Railway Contract
    New Currency Measures
2. Death of Hu Han-min
3. Unrest in the Southwest
4. Sino-American Trade Relations
5. Chengtu Broadcasting Station
6. New Norwegian Minister
7. Sino-American Currency Agreement?
8. Yunnan-Burma Boundary
9. Smuggling in North China

1. The National Government:

Draft Constitution.

The Draft Constitution of the Republic of China was formally promulgated in Nanking early in May. This document was first drafted in January 1933 by the Legislative Yuan and then given for consideration to a committee under the leadership of Sun Fo, President of the Legislative Yuan. This preliminary work took another six months after which a second committee was named in the Legislative Yuan for the examination and revision of the document. The revised form was adopted by the Legislative Yuan in September 1933 and contained thirteen chapters and one hundred and seventy-eight articles.

In 1934 the Constitution was sent to the Central Political Council and later returned to the Legislative Yuan for further revision under five new principles announced by the C.P.C. The second draft finally appeared in October 1935 and contained eight chapters, nine sections and one hundred fifty articles. This was studied by the Fourth Plenary Session of the Central Executive Committee of the Kuomintang in November 1935 and further revision demanded. The final draft was adopted on May 1, 1936 and officially promulgated under date of May 5th (see G-2 Report No. 9357 for complete text).

China Protests.

There has been considerable increase in the Japanese garrison in North China during the past few weeks and on May 20th Mr. Hsu Shih-ying, the Chinese Minister to Tokyo, filed a protest with the Japanese Foreign Office. The text of the representation has not been announced but it is known that the Japanese have made no reply. Reasons given by various Japanese sources for the increase in troops in the North are based upon the greatly increased Japanese population in that area and the inadequate protection which can be furnished by Japanese Consular Police. The real motive behind the latest reinforcing of the Japanese Army garrison is to so increase Japanese influence in North China and Inner Mongolia that Nanking will realize the fact of its actual separation from the rest of China. The new commander of the Japanese Garrison in North China, General K. Tashiro, arrived in Tientsin on May 19th.

Yunnan Railway Contract.

On May 19th the Executive Yuan formally approved the draft agreement between the Ministry of Railways and the French authorities in Annam regarding the revision of the Yunnan Railway Contract which was originally concluded October 29, 1903. Under the new form there will be a Chinese adviser who will serve as a liaison officer between the railway administration and the Yunnan Government. Another change will be that part of the funds for police which have in the past been supplied by the Chinese will hereafter be borne by the railway. It is expected that the agreement will be approved by the Central Political Council and will be formally signed by representatives of China and France in the near future.

New Currency Measures.

On May 17th, Dr. H. H. Kung, the Minister of Finance, announced three measures intended to assist in stabilizing the Chinese currency. These are as follows:

1. The Government to continue to maintain adequate reserves against the note issue, this reserve to consist of gold, foreign exchange and silver, of which the silver portion will have a value equivalent to at least 25 per cent of the note issue.

2. The Government to issue silver coins of denominations of fifty cents and one dollar.

3. The Government will increase the gold and foreign exchange portion of the note issue.

In an interview given to the press, Dr. Kung stated that the minting of new dollars with less silver did not imply devaluation but that they would be token currency similar to legal tender notes. He emphasized the fact that since last November the value of Chinese currency had been divorced from the price of silver in the world market.

Even to the person unversed in finance it is quite evident that the financial condition of the Chinese Government is growing weaker every day. Notes are issued without proper backing, the new coins will not be worth their face value and the Chinese financial bubble will be blown still larger. Persons versed in financial matters are at a loss to understand why the bubble does not burst and no one is willing to prophesy the end of the frenzied financial campaign into which the Nanking Government is plunging.

2. Death of Hu Han-min.

Hu Han-min, the veteran statesman of the Kuomintang Party, died in Canton on May 12th from a cerebral hemorrhage. Thus fate took a hand in the political game and solved the problem as to whether or not he would ever leave the South and come to Nanking.

Hu was born in Kwangtung Province fifty-two years ago of Chekiang parents. He studied in Japan and graduated from the Tokyo Law College. He was identified with the Kuomintang from the founding of that party and he was an outstanding supporter of Sun Yat-sen. Always an ardent opponent of Japan, Hu has been a thorn in the side of the Nanking officials who are in favor of passive rather than active resistance to Japanese aggression.

Information from governmental sources indicates that he would have been willing to come to Nanking if Chiang Kai-shek had allowed him to choose the Garrison Commander of Nanking as well as two Cabinet Ministers. This price was considered too large by Chiang. It is believed that Hu's influence was greatly overestimated and that had he gone to Nanking there is no guarantee that he would have been able to hold the Kwangsi and Kwangtung military and political leaders wholeheartedly in support of Chiang. Hu was a valuable card while in the hands of the Southwest Political Council, but if he had gone to Nanking his importance would have waned.

Delegates have gone from Nanking to Canton to represent the Government in the funeral arrangements. There is talk that efforts will be made to bury Hu Han-min in Nanking near the tomb of Sun Yat-sen.

3. Unrest in the Southwest.

Recent activities of the Central Government and Chiang Kai-shek are viewed with alarm by Chen Chi-tang and others in power in the Southwest. There are three points which cause these military leaders and politicians much concern, - first, the despatch of Central Government troops to Kweichow and Hunan for no apparent reason; second, the haste in plans for completion of the Canton-Hankow Railway; third, the promulgation of the new Draft Constitution.

The Southwest leaders see in all these events a threat to their existence and they expect the enforcement of the new Constitution to be the excuse used by Chiang to take action against them. Meanwhile, military preparations are being made as quickly as possible, ostensibly against Japan, but well informed official opinion in Canton believes that the real purpose is to prevent domination by Chiang Kai-shek.

4. Sino-American Trade Relations.

The Sino-American Trade Association, the American Chamber of Commerce, and the American Commercial Attache are sponsoring a Sino-American Trade Propaganda Week to commence on May 17th. The purpose of this move is to further closer commercial relations between the United States and China.

In this connection it is interesting to note that the total exports from China to the United States have increased considerably for the first three months of this year as compared with the same period in 1935. There was an increase of 38.8 per cent in 1936 over the 1935 figure.

5. Chengtu Broadcasting Station.

The work on the new broadcasting station at Chengtu, Szechwan Province, is nearing completion. This unit is listed at 10-kilowatts and is rated as the second most powerful in China. The station is under the control of the Ministry of Communications and was constructed with material purchased mostly from Germany. The apparatus will be used for communication with Nanking and for general broadcasting purposes and propaganda work.

6. New Norwegian Minister.

The new Norwegian Minister, Mr. Finn Koren, who presented his credentials to the Chinese Government on May 8th, will soon leave for Japan. In addition to his mission in China he is accredited to Japan and Siam as well.

7. Sino-American Currency Agreement?

Rumors of a Sino-American currency agreement which have appeared in the press recently received a setback when, according to the Chinese press, Mr. K. P. Chen, Managing Director of the Shanghai Commercial and Savings Bank, wired to Nanking stating that "the time was not ripe for the conclusion of such agreements". The Chinese Government is trying every method to secure money from sources other than Japan, as previously reported (see G-2 Report No. 9353, item 6).

8. Yunnan-Burma Boundary.

The joint commission for the investigation of the Yunnan-Burma boundary (see G-2 Report No. 9240, item 2), has completed a study of half the boundary.

Because of the unhealthy conditions in the border territory in the hot weather, the work of the Commission has been temporarily suspended until December 1st. Colonel Iselin, the Swiss member, and the British and Chinese delegates have returned to their respective countries to await more favorable weather conditions.

9. Smuggling in North China.

The smuggling situation grows worse every day and Chinese officials state that during the month of April this caused a decrease of eight million dollars silver in the Customs revenues for North China. This figure may be slightly exaggerated but it is certain that the situation is very serious.

The Japanese, who are undoubtedly responsible for the growth in the smuggling trade, have announced that they will take no steps to assist the Chinese in preventing this illicit traffic. No less a person than Foreign Minister Arita gave the Japanese version on May 15th when he said that the "increasing smuggling activities in the northern part of the Chinese Republic are to be ascribed to a lack of enthusiasm on the part of the local Chinese authorities in enforcing strict control, coupled with the high tariff imposed by the Nanking Government".

If Mr. Arita had told the facts he would have said that not only did the Japanese object to the tariff imposed by the Chinese on Japanese goods but that Japanese official sources were making a deliberate attempt to break down the Chinese Customs service in North China. When the Japanese have succeeded in preventing most of the revenue of the North from reaching Nanking they will have seriously crippled the Chinese Government. Such a weakening of Nanking's financial sinews is likely to assist in creating a situation in which the Chinese will default on foreign loans. This would please Tokyo immensely.

In this campaign against the Customs, the Japanese have found a weapon far more effective than brute force. The Nanking Government itself has so loaded the Customs with domestic obligations that every cent of revenue is needed. The normal income is none too much to maintain the balance; with the marked decrease in receipts incident to the widespread and increasing evasion of duties, repudiation cannot be avoided, and this will force the Chinese to borrow wherever they can. If Nanking is forced to default on foreign loans, there will be no chance of borrowing money elsewhere than in Japan. Needless to say, the interest on such loans will be very high, and probably prepaid.

Joseph W. Stilwell,

Joseph W. Stilwell
Colonel, Infantry
Military Attache

SVC

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JUL 8 1936
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COMMENTS ON CURRENT EVENTS

May 23--June 5, 1936

1. The National Government:
    New French Ambassador.
    Chinese Ambassador to Russia.
    League Experts.
    Chinese Mission to Siam.
2. Red Headquarters Raided.
3. Shansi Chairman Changed.
4. Tientsin-Tokyo Wireless.
5. Leith-Ross to Japan.
6. State Farms in Manchoukuo.
7. British-Japanese Incident.
8. Nanking and Canton.
9. Sino-Japanese Relations.

2055-622

RECEIVED G/2 W. D. JUN 30 1936

1. The National Government:

New French Ambassador.

M. Paul Naggiar, the new French Ambassador to China, sailed from Marseilles on May 29th. He is expected to arrive in Shanghai on June 29th.

Chinese Ambassador to Russia.

According to information from his family, Dr. W. W. Yen (Yen Hui-ching), the Chinese Ambassador to Russia, left Moscow on May 19th. He is expected to arrive in Shanghai early in June. No particular reasons are given, other than personal, for Dr. Yen's return, but it is understood that he is seriously considering retiring from governmental service.

League Experts.

Dr. Leon Coursin, a League of Nations expert on highway construction, is making a visit to Kwangsi Province to inspect the road situation in that area. Another expert shortly to visit Kwangsi is Dr. Bourdrez, whose speciality is water conservancy. These two individuals are working under the auspices of the National Economic Council, as is Mr. W.K. H. Campbell, a recent visitor to North China to inspect co-operative enterprises.

The Japanese have ceased to protest publicly against the League experts but keep track of their movements. They hope to replace them with Japanese advisers.

Chinese Mission to Siam.

A Chinese investigation mission sailed from Shanghai on May 25th for Siam to investigate business conditions and also to look into the alleged oppression of Chinese by the Siamese authorities. The mission is composed of Mr. Lin Ping, of the

Foreign Office, Mr. Lin Kang-hou, a well known Shanghai business figure, and Mr. Yui Ming (American returned student), who is in the Foreign Affairs Department in Shanghai. As far as can be ascertained there is no motive other than the one announced for the sending of this mission to Siam.

2. Red Headquarters Raided.

Shanghai despatches report that a raid was made by the International Settlement police which netted a considerable amount of Communist literature. This is stated to have included many copies of the Moscow Daily News and some Communist publications from New York.

This raid is understood to have been carried out at the request of the Chinese authorities who furnished the information to the Settlement police. The information was obtained from students in Nanking who received Communist literature from the address which was later raided.

3. Shansi Chairman Changed.

General Hsu Yung-chang, the Chairman of Shansi, has resigned his post and his resignation has been accepted. It is understood that Chao Tai-wen will be appointed in his place. Mr. Chao has been in public service as Chairman of Chahar, Minister of the Interior and Chairman of the Control Yuan. He is a native of Shansi and of course will be ruled by Yen Hsi-shan as was Hsu Yung-chang. The shift is not believed to be important as Yen will continue to control the province as before, - the name on the soor of the Chairman's office will be the only change apparent.

4. Tientsin-Tokyo Wireless.

The Tientsin-Tokyo wireless service was formally inaugurated at a ceremony held in Tientsin on June 1st. According to plans of the Tientsin Telephone Administration, the service will be open for transmission of commercial messages in Chinese and Japanese from June 15th. Messages from Peiping and other places in the North are sent to Tientsin for relay to Japan.

5. Leith-Ross to Japan.

Sir Frederick Leith-Ross (see G-2 Report No. 9288, item 3), the British financial expert whose sojourn in China has been giving the Japanese much concern for the past few months, sailed for Japan on May 31st. In a press interview he stated that he was going to Japan at the invitation of the Japanese Government and with the approval of the British Government for the purpose of discussing with the Tokyo authorities various financial and economic questions.

The Japanese have blamed Sir Frederick's advice to the Chinese for the new financial policy of the Nanking Government (see G-2 Report No. 9235, item 2) and have feared his presence in China presages a financial agreement between China and Great Britain. During the British expert's last visit to Japan on his way to Shanghai, his hotel attempted to secure his private despatch case from the safe of the British Commercial Attache in Tokyo on the pretext that Lady Leith-Ross wanted some jewelry contained in the bag. The attempt was not successful as the party happened to be dining with the Commercial Attache at the time the Japanese sent a messenger for the despatch case.

6. State Farms in Manchoukuo.

As part of the Japanese General Staff scheme for Japan-Manchoukuo cooperation, it has been decided to establish state owned experimental farms under the Hsinking Department of Industry. At the present time there are four such farms which are located at Koshan, Ningan (Ninguta), Harbin and Chinhsien (Chinchow).

The Department of Industry plans to establish a total of eighteen experimental stations for the purpose of improving agriculture in Manchoukuo. The country will be divided into eighteen agricultural districts and each of these will have its model experimental farm.

7. British-Japanese Incident.

An incident involving the death of a Japanese subject employed by the Manchoukuo Army has been unsolved to date. It appears that the victim was beaten by two British soldiers and died before reaching the Japanese hospital. The matter is being discussed between the two Embassies concerned but no information has been made public. The Chinese police state that they know nothing regarding the incident.

8. Nanking and Canton.

Relations between Nanking and Canton seem about the same as ever. The political and military leaders in the Southwest continue to distrust the activities of the National Government (see G-2 Report No. 9368, item 3) and fear that the supposed preparations against Japan will actually be used to bring Kwangtung and Kwangsi under the domination of Chiang Kai-shek.

Some of the Central Government delegates sent to Canton to attend the funeral of Hu Han-min (see G-2 Report No. 9368, item 2) have returned, and the remainder are expected in Nanking early in June. Efforts continue to be made by the Central Government to have Hu buried in Nanking but the Southwest does not seem enthusiastic. The latest report is that a cruiser has been ordered to proceed to Canton to convey Hu's remains to Nanking, but no definite information is available.

9. Sino-Japanese Relations.

Each day the Japanese appear to be taking a firmer stand not only in regard to their "rights" in North China but also in dealing with the Nanking Government. On June 22nd General Chang Chun, the Chinese Foreign Minister, had an interview with Mr. Wakasugi, the Japanese Charge d'Affaires in Nanking. General Chang called attention to the smuggling in the North and the increase in the Japanese Garrison in North China. Mr. Wakasugi stated that the Japanese had not interfered with the anti-smuggling activities of the Chinese. In regard to the increase of Japanese troops, he said that it was necessary because of the greater number of Japanese nationals in that area and denied that it violated Chinese sovereignty since the legal justification for the move was contained in the "Protocol of 1901".

Shortly after this interview the Japanese papers printed a despatch from Japan quoting Mr. Suma, the Consul-General in Nanking who has just returned to Japan. Mr. Suma is quoted as saying in so many words that China would have to do about as Japan wished or fight. Mr. Suma is expected to return to China shortly in company with Mr. Kawagoe, the former Consul-General in Tientsin (see G-2 Report No. 9353, item 4), whose appointment as the new Ambassador to China is looked upon as another triumph for the Japanese Army. Kawagoe is not believed to have any particular qualifications for his new post except his friendship for Army officials whose mouthpiece he will become when he takes up his new position in Nanking.

The increase of Japanese troops in North China has caused considerable excitement in that area. The new Japanese Commander, Lieutenant-General Tashiro, has arrived in Tientsin. The Tientsin Garrison has been substantially increased. Peiping now boasts of Major General Kawabe who is stated to be in charge of the Embassy Guard there. The set up is believed to include an infantry regiment in the Embassy and another infantry regiment to be stationed in Fengtai, Tungchow and other important places in the vicinity of Peiping.

Closely connected with the Sino-Japanese question is the matter of local politics. Rumors are current that Hsiao Chen-ying would be forced from his position as Mayor of Tientsin. The reason is stated to be his shift of General Liu Yu-shu from head of the Tientsin Pacification Corps to the head of the Public Works Department of that city. Liu appears to have secured the inside track with the Japanese and the change is stated to have displeased these worthies. Late reports state that Hsiao will continue as Mayor of Tientsin but it is evident that considerable political jockeying is taking place.

All indications point to efforts by the Japanese to lessen the control of the Nanking Government in North China. One method which strikes at the heart of the Chinese is the question of money, and here the hand of the Japanese is quite evident. On May 23rd the Hopei-Chahar Political Council announced that in the future the Hopei Provincial Bank would be the official note issuing bank for the provinces of Hopei and Chahar as well as for the municipalities of Tientsin and Peiping. The Council further stated that no bank would be allowed to increase its note issues without its approval.

This is a direct slap in the face of the Nanking Government as it will be remembered that following the promulgation last November of the new financial policy of the Chinese Government, no commercial banks were to be allowed to increase their note issues without permission of the National Government. Since that time all note issues have been controlled by the three Government banks - the Central Bank of China, the Bank of Communications and the Bank of China. Thus the action of the Hopei-Chahar Council means in effect that even these Government banks will not be allowed to increase their note issues in North China without the approval of the local body!

Should the Hopei Provincial Bank issue notes, a thing which seems likely, it will be doing so in violation of Nanking's direct orders. Should the Nanking Government banks increase their note issues, which they appear to be doing regularly, it will be against the orders of the Hopei-Chahar Council which were promulgated of course under Japanese pressure. What the outcome will be no one can say but it is believed that the condition will aggravate the strained relations existing between Nanking and North China and may well result in an effort on the part of the Japanese to have Hopei Provincial Bank notes as the only legal tender in the North.

Another interesting development in the banking situation is the information from reliable Chinese financial sources to the effect that Yin Ju-keng's administration in the Demilitarized Zone, acting under Japanese instructions, tried to issue their own notes in Japanese Yen. The Chambers of Commerce in the area protested so vigorously that the plan has been temporarily shelved. At the present time it is understood that the Yokohama Specie Bank will issue its own notes in Chinese currency. These notes were formerly much in evidence in China but of recent years the Japanese banks in company with other foreign banking firms have been withdrawing their own notes from circulation and using the bank notes of the Central Government banks. If the North should be flooded with Yokohama Specie Bank notes in Chinese currency a later shift to Manchoukuo silver dollars, which are about on a par with the Chinese dollar and called the same in the Chinese language, or to the Japanese yen, might be more easily effected.

The smuggling in North China continues rampant with the Japanese officials in that area as well as in Nanking declaring that the high tariff imposed by China is the cause of it. Japanese and Koreans grow rich and there is no doubt that the number of merchants who will take advantage of reduced costs offered by the Japanese firms in the smuggling business is increasing daily. Even foreign firms dealing in foreign goods have been approached by the Japanese who offer to deliver the same goods to them at cost plus 20% instead of cost plus 60% which the foreign firms now pay.

In considering the question of Sino-Japanese relations in general and the situation in North China in particular, attention is inevitably attracted to certain salient facts:

1. No question of the authority of the Japanese North China garrison enters into the matter any longer. The garrison is now on a par with the Kuantung Army, its commander is a lieutenant-general and his appointment comes direct from the Emperor.

2. The North China garrison, as augmented, now amounts to over 6,000 men, a very respectable force considering its distribution, its communications, and the area it dominates.

3. There is no longer any question of differences in policy between the Japanese civil and military groups.

4. The Japanese personnel has been apparently hand picked:

a) Mr. Arita is Minister of Foreign Affairs. Formerly Ambassador to China and thoroughly familiar with the situation.
b) Mr. Kawagoe is Ambassador to China. Formerly Consul-General in Tientsin, and entirely at the disposition of the army.
c) Mr. Suma is Consul-General at Shanghai (see 5 below).
d) General Kita is Military Attache (see 5 below).
e) General Doihara and General Tada, relieved from China duty, nevertheless get divisional commands at home. Lieut. General Tashiro, Major General Matsumuro, Major General Kawabe, Colonel Mutakuchi, the senior new appointees, impress one as being among the best types of officers in the Japanese Army.

5. Public utterances of Japanese officials are increasingly blunt and plain. For instance, Mr. Suma announces that "China must choose between mutual interdependence with Japan or war with Japan". And General Kita says that if the Chinese don't like the T'angku Truce, they can negotiate a new pact to replace it, including of course a provision for the recognition of Manchoukuo's independence.

6. Renewed rumbling of student opposition, - and the first appearance of a bomb on the railroad.

7. Resignations of officials, withdrawals of resignations, appearance of Kuominchun emissaries, rushings to and fro to conferences, uneasiness in the 29th Army, all indicate the approach of some sort of crisis.

8. The Nanking Government still gives no sign of real interest in the fate of North China.

The conclusion is naturally reached that the Japanese are going full steam ahead, that they are now strong enough to disregard hostile demonstrations, and that they are craftily led by men who take a step at a time, careful not to push the

Chinese too far all at once, but never relaxing their pressure; that General Sung and the 29th Army will have to choose between going south or playing Japan's game, and that the decision cannot be very long delayed; that Nanking has not yet reached the point of making the matter an open issue, and will not use force to oppose the Japanese occupation.

Joseph W. Stilwell

Joseph W. Stilwell
Colonel, Infantry
Military Attache

SVC

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COMMENTS ON CURRENT EVENTS

June 6 - 19, 1936

RECEIVED G/2 W. D. JUL 14 1936

1. The National Government.
    - Second Plenary Session of C.E.C.
    - Votes for Women?
    - Mission to Siam.
    - Dr. W. W. Yen Returns.
    - Hu Han-min's Tomb.
2. The Anti-Japanese Army.
3. The Panchan Lama.
4. British-Japanese Incident.
5. Leith-Ross Returns.
6. China Loses Inner Mongolia.
7. Sino-Japanese Relations.

1. The National Government.

Second Plenary Session of C.E.C.

At an extraordinary meeting of the Standing Committee of the Central Executive Committee held on June 10th it was decided that the Second Plenary Session of the Fifth Central Executive and Supervisory Committees of the Kuomintang would be held on July 10th in Nanking. Chinese Government press releases state that in accordance with the policy announced at the Fifth Kuomintang Congress (see G-2 Report No. 9251, item 1), appropriate steps will be adopted in July to cope with the present situation in China and will have an important bearing upon the domestic and foreign policy of the country.

Votes for Women?

According to a petition submitted to Kuomintang Headquarters on June 14th, the Women's National Congress Election Campaign Committee desires that one-third of the delegates to the November meeting of the National People's Congress shall be women. This Campaign Committee includes among its executive members Medames Chiang Kai-shek and Feng Yu-hsiang.

The Chinese women have been capable rulers of households in China for generations and their inferior position for many years has given them some commendable traits of character which the Chinese men have failed to cultivate. Anyone who has watched Chinese women administer Y.W.C.A. and similar work has been impressed with the fact that their integrity, attention to duty and moral characteristics are greatly to be admired. The inclusion of women in the administrative affairs of the Chinese Republic to a greater extent will certainly do no harm and it is believed will be to the best interests of China.

Mission to Siam.

The Chinese investigation mission which sailed from Shanghai on May 25th (see G-2 Report No. 9389, item 1) arrived in Bangkok, the capital of Siam, on June 6th. The members were welcomed by the Siamese authorities and also by a party of Chinese residents. As noted before there appears to be no motive for sending this mission except to investigate business conditions in Siam and look into the status of overseas Chinese who live in the Land of the White Elephant.

Dr. W. W. Yen Returns.

Dr. W. W. Yen (Yen Hui-ching), the Chinese Ambassador to Moscow, arrived in Hongkong on June 8th and left the next day for Shanghai. Rumors persist that Dr. Yen is considering retirement from public life, but no official statement to that effect has been given out.

Hu Han-min's Tomb.

Plans of the Nanking Government to have the veteran statesman, Hu Han-min, buried in Nanking (see G-2 Report No. 9368, item 2) have not materialized. Opposition from Canton was so great that on June 9th, Mr. Fu Ping-chang, Chairman of the Foreign Relations Committee of the Legislative Yuan, announced that word had been left (?) by Hu Han-min requesting that he be buried at Lungyentung near Canton.

No word has come from Canton but it is certain that they never intended to allow Hu to be buried in Nanking and that Mr. Fu is merely trying to save the face of the National Government in the matter.

2. The Anti-Japanese Army.

During the past two weeks the outstanding event has been the organizing of an Anti-Japanese Expeditionary Army composed of Kwangtung and Kwangsi troops under General Pai Chung-hsi of Kwangsi. The Kwangtung troops advanced into Hunan as far as the vicinity of Chenhsien and the Kwangsi forces reached Kiyang in the same province, the apparent move being to converge on Changsha.

The announced purpose of the expedition was to force the Nanking Government into some open declaration of opposition against Japan, but rumors are current that it is a move to prevent any possible action on the part of Chiang Kai-shek to increase his control over the Southwest (see G-2 Report No. 9368, item 3). Other reports are heard to the effect that the move is instigated by the Japanese to overthrow the Nanking Government, bring China into internal strife again and thus make Japanese intervention in North China at least, and possibly in the Yangtze Valley, seem necessary for the peace of the Far East.

The real reason is hard to discover but certain things point to a far more elemental cause. Business conditions in the South have been bad for some time. Money from the Central Government has been withheld and the currency of Canton has dropped so that it takes more than a dollar and a half Canton money to purchase one dollar of National currency. The South knows that the Central Government officials are hard pressed by the Japanese at this time. They also fear that Chiang will try to increase his hold in the Southwest following the completion of the Canton-Hankow Railway.

All these facts and fears have worked on the excitable minds of the Cantonese until they came to believe that action was necessary in order to obtain some guarantee from Chiang Kai-shek. This is believed to be the real motive behind the march of the Anti-Japanese Army inasmuch as they stopped when only a short distance inside the Hunan border. Some will say that it was Chiang's concentrations at Changsha that stopped them, but it is believed that the Cantonese temperement would not have been inclined to let this stop them had they been wholeheartedly committed to the effort. The fact that the northern drive stopped so soon is believed to be an indication that some agreement was reached between Chiang and the Southwestern leaders.

An amusing incident occurred on July 9th when Mr. T. Kawai warned General Chen Chi-tang against "unduly exciting popular bodies" against Japan. Japanese officials also announced that it was all right for an anti-Japanese expedition to start north but that if any harm came to Japanese nationals "severe repercussions" might be expected!

Latest news indicates that the advance of the Anti-Japanese Army has been halted by orders from Canton and a threat of civil war has been averted for the moment. It is believed that it was no more than a threat to bring Chiang Kai-shek to terms, but with the present condition of affairs in China everyone breathes easier now that the Southern advance has stopped. Nanking politicians are placing great faith in the Second Session of the Central Executive Committee which is due to meet on July 10th, but it is believed that they are too optimistic in thinking that any one meeting will solve the internal issues and the pressing problem of a policy vis-a-vis Japan at the same time.

3. The Panchan Lama.

According to despatches from Kansu Province, the Panchan Lama, who left the Tarlssu temple in Chinghai Province some days ago, has arrived at Tungjen on the Chinghai-Kansu border. The Panchan L ama has been on the verge of departure for Tibet for many months (see G-2 Report No. 9126, item 8) and at last he has started his journey. How far he will go is yet to be seen but it will be surprising if he succeeds in returning to Lhasa without opposition on the part of the council which rules Tibet since the death of the old Talai Lama.

The Chinese Government is assisting the Panchan as Nanking hopes to extend some measure of control to Tibet through him. The new Talai Lama is only a child and authority is in the hands of a body of followers of the former Talai who will rule until the present Reincarnation comes of age. It seems unlikely that they will be willing to have Nanking's fingers in the Tibetan pie, especially through the hands of the Panchan Lama who was driven from Lhasa about ten years ago.

4. **British-Japanese Incident.**

The question of the alleged murder of a Japanese citizen, Mr. K. Sasaki, by British soldiers of the Embassy Guard in Peiping (see G-2 Report No. 9389, item 7) remains unsolved. Despite the fact that the victim was an officer of the Manchoukuo Army the Japanese Residents' Association in Peiping protested to their Embassy that stronger steps be taken to secure satisfaction from the British.

The British Embassy spokesman was decidedly cool in his remarks answering various allegations. It is understood that a British Military Court is sitting in the matter and that an identification parade of the British Guard has been held. Rumors are to the effect that several soldiers who were noisy on previous evenings have been picked out but that no identification of anyone who might be associated with the murder of the Japanese has been secured.

5. **Leith-Ross Returns.**

Sir Frederick Leith-Ross (see G-2 Report No. 9389, item 5) arrived in Shanghai from Japan on June 16th. The British financial expert has been in Japan at the invitation of the Japanese Government. He plans to stay a few days in Shanghai and then proceed to Nanking to exchange views with the Nanking authorities regarding the Chinese currency situation. Rumors are current that the Japanese approached Leith-Ross regarding some scheme of British-Japanese financial cooperation in China, but the British expert will make no statement concerning the matter.

✓ 6. **China Loses Inner Mongolia.**

Due to a series of blunders on the part of the Nanking Government and intrigues by Chinese officials in whose hands Chiang Kai-shek placed the handling of Mongol affairs, it now looks certain that practically all of Inner Mongolia is lost to China. The term Inner Mongolia may not be clear to some as it usually does not appear on maps. The area generally known by that name is practically all of Chahar Province and more than half of Suiyuan Province. A glance at the map will show that the lost area amounts to Chahar north of the Peiping-Suiyuan Railway and that part of Suiyuan north of this same railway, and a line from its terminus at Paotow west along the Yellow River to the Ninghsia border.

If this area were lost to China due to the establishment of an independent Inner Mongolia such as has been the dream of Prince Te, the Secretary of the Mongolian Political Council at Pailingmiao, the situation would not be so serious. For several years the Mongols led by Prince Te, who represented the "Young Mongol" group, have tried to secure support from Nanking for an autonomous area allied with China. Nanking grudgingly agreed to the establishment of the Pailingmiao Council but never lived up to the agreements made between it and the Central Government.

As has already been reported, the crowning blunder—the straw which broke the Mongol camel's back—was the appointment of Fu Tso-yi, Chairman of Suiyuan and traditional enemy of the Mongols, in charge of Sino-Mongol negotiations. This was the start and Fu quickly secured Nanking's approval to the establishment of a new Council of Suiyuan Banners which was calculated to make impotent the Pailingmiao Council that Nanking was pledged to uphold. He then engineered a mutiny at Pailingmiao which though it failed was evidence enough to the loyal Mongols that Fu was determined to break the power of Te Wang and the Pailingmiao group.

While the Suiyuan officials were doing their best to break the unity of the Mongol Banners from the west, the Japanese were losing no time in forcing themselves down the throats of the Chahar Mongols. Military missions had been established in Chahar and General Li Shou-hsin had been furnished a Japanese staff and ordered into eastern Chahar. He has been garrisoned at Changpeihsien for some months now and his Japanese staff is said by the Mongols to be more powerful than the military mission which has been usurping the hospitality of Prince Te's Palace.

Now apperently the Japanese have thrown down all pretense and are taking active measures. Their strictly military missions in Chahar have been withdrawn, since with Li Shou-hsin's men from Dolonnor in the area their presence is no longer needed! New missions, however, have been established further to the west. The first of these is at Pailingmiao itself, where the Japanese have appropriated part of the Lama temple group for their own use and have established a radio station. This mission is composed of about fifteen persons though their number changes so from day to day that an accurate count is difficult. They are in constant communication with Chahar by means of motortrucks.

In charge of the Japanese Military Mission at Pailingmiao is Kakubo Morishima, a well known Japanese who has been trading in and around Kalgan for the past thirty years. Morishima is married to a Chinese from Hsuanhwafu and speaks both Chinese and Mongol fluently. He is a small, slightly built individual with a distinct Jewish cast to his features and a stringy fringe of whiskers which give him a rather ludicrous appearance. Behind this disarming exterior there is one of the brightest minds that exist in this part of the country. Fortified by nearly thirty years of residence, travel and contact with the Chinese and Mongols, he is clearly one of the key men for the Japanese effort in Inner Mongolia. There is certainly reason to believe that he was planted in Kalgan by the Japanese Army, and if this is not the case then they have chanced upon the one person in the world who has the peculiar knowledge and experience necessary for them.

Assisting Morishima is a man named Nakajima, a few radio men and several "floaters" who travel east and west from Pailingmiao almost every day in American made motor trucks. The total personnel there is estimated at about fifteen, as mentioned before.

In addition to this mission which is known to exist it is reported from reliable Mongol sources that the Japanese have two other missions further to the west. This gives them influence and a daily growing control over practically all the territory known as Inner Mongolia, and establishes their first observation line vis-a-vis Outer Mongolia for nearly the entire southern boundary of that great area.

The second new mission of the Kuantung Army is said to be located at a place called Mirgenchao in Mongol. This is not shown on the Postal Map but is a collection of Mongol yurts in the Hsi Kung or West Oriat Banner - western Suiyuan near the Yellow River. It will be remembered that this is in the territory of Dorlchi or Shih Wang, the chief whose intrigue with Suiyuan officials in the matter of opium tax was the cause of much hard feeling between Suiyuan and the Mongolian Political Council (see G-2 Report No. 9235, item 7).

The third mission reported as recently established by the Japanese Army is at a place which the Mongols call Wang Yeh Fu and which is believed to be the place shown as Ting Yuan Ying on the Postal Map.

It can be seen from the above discussion that Nanking has finally lost control over Inner Mongolia and that Japan has definitely taken the upper hand and intends to push that advantage. The Mongols are unable to help themselves and by waiting for Nanking to help them may have suffered considerably in the terms which the Japanese are forcing upon them. Prince Te, the most influential of the Mongol leaders and certainly the most intelligent, is forced to house some thirty Japanese in his Palace. He is virtual hostage, as the Japanese together with the "Manchoukuo" troops of General Li Shou-hsin with their Japanese staff outnumber any Mongol Banner troops that can be collected.

Latest reports from Mongol sources indicate that the political situation will soon emerge in which a new Mongol Government will be organized. The 1st Inner Mongolia Army is said to be under organization by the Japanese at Changpeihsien under Li Shou-hsin. The 2nd Mongol Army has been given headquarters at Chaoyang in Jehol under command of General Pao. The Japanese Military Mission at Pailingmiao now has the moral support of three companies of the 1st Division of the 2nd Inner Mongolia Army. This detachment has a Japanese instructor by the name of Maeda who turns out in full Japanese uniform with white gloves and sword for every drill.

There is no question that China has lost Inner Mongolia but the pity of it is that she has lost it by the blunders and intrigues of Chinese officials. Had the National Government been willing to play honestly and fairly with the Mongols and allowed them to have arms and ammunition of their own they would have been willing to oppose the Japanese penetration. All that the Mongols wanted was to be free to govern their own local affairs and they were perfectly willing to have Nanking handle their dealings with foreign nations. By working to keep the Mongols weak and by years of failure to keep their promises the Chinese have reduced the Mongols to a state where they can do nothing but submit to the Japanese dictation. This is very apparent in the eastern section and is believed to be extending westward every day.

7. Sino-Japanese Relations.

The cauldron of North China politics which has been seething for the last few weeks, not only due to local intrigues but also to the Japanese flavoring which has been gradually increasing in strength of late, finally boiled over on June 17th. The rumored "resignation" of Hsiao Cheng-ying from the post of Mayor of Tientsin (see G-2 Report No. 9389, item 9) went into effect on that date when the Hopei-Chahar Political Council issued an order accepting Hsiao's resignation and appointing General Chang Tze-chung, the commander of the 38th Division and present Chairman of Chahar in his place. General Liu Juming, now commanding the 143rd Division, has been made Chairman of Chahar to replace Chang.

These changes while anticipated were surprising because on June 16th General Matsumuro, Special Representative of the Japanese North China Garrison, gave an unsolicited interview to the press in which he stated that Hsiao had lost the confidence of the people in Tientsin and could not return to his post. With regard to General Chang Tze-chung's appointment as Mayor, Matsumuro said that while the Japanese had no objection to Chang, they believed it would not be fitting for him to accept the post of Mayor when he had been Chairman of a province. This interview came as a surprise since the Japanese general is not an easy person for the press to see. His announcements were thought to have been made to forestall the appointment of Chang to Tientsin.

It is believed that the Japanese really have no serious objections to the move or they would have taken much stronger action in the matter. Within the next few days conferences are expected to be held in Peiping which will have important effects on Sino-Japanese relations. Persons who may attend are General Matsumuro, the Special Representative in Peiping; General Itagaki, Chief of Staff of the Kuantung Army; General Sugiyama, Vice-Chief of the Tokyo General Staff; General Tashiro, Commander of the Japanese Garrison in Tientsin; General Kawabe, Commander of the Japanese Garrison in Peiping; representatives of the Japanese missions in Kalgan, Taiyuanfu, Kweihwa and Tsinanfu. At this meeting General Matsumuro is expected to make clear to the various Army representatives in North China - "resident officers" or whatever they may be called - his plans for better coordination in effecting Japanese desires in that area.

Another interesting event of recent days has been the visit of Mr. Kazue Kawashima, Director of the East Asiatic Bureau of the Tokyo Foreign Office, who arrived in North China via Korea. His most significant statement was to the effect that under ordinary circumstances the Foreign Office would be willing to carry on direct negotiations with Nanking regarding Sino-Japanese questions but that the situation in the North was the result of peculiar circumstances. He further said that at the present time, since the War Office was better informed regarding the situation in North China, negotiations were being conducted by the Army. Kawashima added that when the Chinese Government had a better understanding of affairs in the North, the Japanese Foreign Office would be willing to carry on the negotiations!

In Nanking there appears to be a lull in the Sino-Japanese imbroglio. Mr. Siigeru Kawagoe, the new Japanese Ambassador to China (see G-2 Report No. 9253, item 4), will soon arrive in Nanking to present his credentials and then we may expect renewed pressure applied to Chiang Kai-shek. Kawagoe is the first diplomatic representative in Nanking who may be said to be the direct tool of the Japanese Army. A Consul in Tientsin until recently, he owes his promotion entirely to his connection with the military and he can be expected to carry out their instructions to the letter.

South China has been the scene of more anti-Japanese feeling and the Japanese Consul-General in Canton, Mr. T. Kawai, took occasion to warn the Chinese officials regarding this matter. This warning was in addition to the one previously mentioned in this report with regard to the Anti-Japanese Army.

The Cantonese authorities replied to this protest on June 16th with a statement to the effect that the Cantonese authorities promise full protection for Japanese nationals but emphasized the fact that the Canton Government cannot prohibit anti-Japanese activities since they represent a manifestation of the Chinese people's will and are a natural reaction to Japanese activities in Manchuria, Jehol, North China and Shanghai since the Mukden incident. The reply continues: "The only thing for Japan to do is to change her aggressive tactics of the last five years, which have aroused the people's hostility, whereupon the anti-Japanese movement would automatically subside and Sino-Japanese relations become more cordial".

This statement is one of the strongest which has ever been made by Chinese officials and while it comes from the Kwangtung Foreign Commissioner and not from the Chinese Government at Nanking, the Japanese cannot be expected to accept it. There is no doubt that Canton is doing its best to embarrass Nanking in the matter of Sino-Japanese relations and serious trouble may well be in the offing. The whole thing depends on whether the Japanese are willing to take strong action at this time or whether they wish to continue the system of pressure and infiltration without untoward military display.

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COMMENTS ON CURRENT EVENTS

June 20—July 3, 1936

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1. The National Government:
    - Sino-Latvian Treaty
    - Another Reconstruction Association
    - National Highway Traffic Commission
    - National Budget Adopted
2. Japanese Ambassador Arrives
3. New French Ambassador
4. British-Japanese Incident
5. "Tinghsien Experiment" to Move?
6. Inner Mongolia
7. Canton and Nanking
8. Sino-Japanese Relations

1. The National Government.

Sino-Latvian Treaty.

According to Foreign Office information, a treaty of amity was signed in London by the representatives of China and Latvia on June 25th. Mr. Quo Tai-chi (Kuo Tai-chi), the Chinese Ambassador, signed for China and Mr. Charles Zarine, the Latvian Minister, for Latvia. It is not believed that this agreement has any significance in China's foreign relations.

Another Reconstruction Association.

Dr. H. H. Kung, Dr. Wang Wen-hao and Mr. Wu Ting-chang have been appointed as the standing committee members of the People's Economic Reconstruction Movement Association by General Chiang Kai-shek in his capacity as Chairman of the Executive Yuan.

Plans for the establishment of this association have been made which will give it a total membership of 554, including 322 ordinary members of whom 67 will concurrently be commissioners and 167 special commissioners. It is stated that none of these will draw salaries from the organization, but unless this is the case it is hard to see what purpose this association will serve. The National Economic Council has the machinery and the power to handle all such matters and the addition of this new organ appears to serve no good purpose.

National Highway Traffic Commission.

Another addition to the overcrowded list of boards and commissions is the National Highway Traffic Commission. Unlike many of these organizations, this one fills a real need and has a chance to render a real service to China. The new Commission was inaugurated under the auspices of the National Economic Council on July 1st. It replaces the inter-provincial body which has been in charge of highway travel in the provinces of

Kiangsu, Chekiang, Anhwei, Fukien, Kiangsi, Hunan and Hupeh, as well as the municipalities of Nanking and Shanghai.

Formerly motorists wishing to travel in these various localities were required to obtain separate licenses. Under the new Commission the payment of ten per cent additional to the original license fee will enable holders to travel without other charge in these provinces and the two special municipalities.

National Budget Adopted.

The National budget for the 25th fiscal year ending June 30, 1937 was adopted on June 29th at a joint meeting of the Finance, Economic, Codification, Foreign Relations and Military Affairs Committees of the Legislative Yuan. The total anticipated receipts and disbursements are balanced at 990,658,450 dollars silver, the details of which will be reported upon when available. It is expected that the budget data will be promulgated on July 10th. The amount is over thirty-three million greater than the last fiscal year (see G-2 Report No. 9161) and it will be interesting to see how allocations have been made.

2. Japanese Ambassador Arrives.

Mr. Shigeru Kawagoe, the new Japanese Ambassador to China (see G-2 Report No. 9253, item 4), arrived in Shanghai on June 22nd. Official arrangements have been made for him to present his credentials in Nanking on July 3rd.

On June 27th the new Ambassador convened a conference of Japanese consular officers in Shanghai. Among those present were Mr. Y. Muira from Hankow; Mr. I. Ishii from Shanghai; Mr. Y. Suma from Nanking, and Mr. T. Kaiwai from Canton.

It is believed that the Consuls reported to Mr. Kawagoe regarding conditions in their districts and that the new Ambassador had an opportunity to discuss personally the question of Sino-Japanese relations with each of them. At this conference Mr. Kawagoe is said to have brought the latest word from Tokyo as to how the Japanese diplomatic and consular representatives should conduct themselves with regard to the present policy of the Japanese Government toward China.

Among those reporting to the new Ambassador was Mr. Kazue Kuwashima, the Director of the Bureau of Eastern Asia Affairs of the Japanese Foreign Office. Mr. Kuwashima has been on an inspection trip in China, visiting all large places having Japanese consular representatives.

3. New French Ambassador.

M. Emile Naggiar, the first French Ambassador to China, arrived in Shanghai on June 29th. It is expected that he will present his credentials on July 4th. M. Naggiar has had experience in China service as Consul-General in Yunnanfu in 1911 and in Shanghai in 1912 and again in 1925. He entered the French diplomatic service in 1908 and has recently represented his country in Czechoslovakia.

4. British-Japanese Incident.

The incidents surrounding the Sasaki case (see G-2 Report No. 9409, item 4) are being aired in the British Consular Court which has been convened in Peiping. Two British soldiers are accused of killing a Japanese who was in the employ of the Manchoukuo Army.

The British legal machinery is turning in traditional form much to the discomfort of the Japanese who claimed to have cremated the body but ask the British to accept the written statements of Japanese investigators and resent having their witnesses examined by the British authorities.

The testimony brings out that a great many Japanese and Koreans are engaged in very questionable trades under the guise of running "hotels" and "bars". This sort of publicity is not relished by the Japanese and the case has many amusing angles in spite of the fact that the charges are serious.

5. "Tinghsien Experiment" to Move?

Mr. James Yen, head of the well known "Tinghsien Movement", has arrived in Changsha, Hunan. He is stated to have gone there to help establish another Mass Education Movement Experimental Station but it is learned from reliable sources that he is considering moving his headquarters to the south in anticipation of further Japanese aggression in Hopei Province. The town of Tinghsien is not far south of Peiping on the Peiping-Hankow Railway and it has been the center of Yen's "1000 Character" movement and similar experiments with educating the Chinese peasants.

It is unfortunate that Mr. Yen and other educators in North China are so ready to run at the thought of Japanese influence. Part of Tsing Hua University from Peiping has already moved to Changsha, and this is clearly the trend in Chinese educational circles in North China. One of the few opponents is Dr. Hu Shih, who actively opposes the talk of moving the various schools and colleges from the North. He claims this is playing into the hands of the Japanese and that Chinese educationalists should not be so easily frightened.

This desire to take the easiest way and move their huts before the big bad wolf even begins to puff is a characteristic of only too many of the Chinese. It is a sad fact but known to be true that several of the most prominent Chinese heads of the Peking Union Medical College (Rockefeller Foundation) have been seriously considering plans for moving this institution to South China.

6. Inner Mongolia.

Very little news comes from Inner Mongolia as both the Japanese and Chinese are anxious to keep such news out of the papers. The Japanese wish to carry on their aggressive policy with as little publicity as possible and the Chinese are loth to give out news and suffer loss of face because of their inability or unwillingness to take any action to oppose Japan.

Late rumors from Kalgan indicate that the Japanese are forcing the organization of a new government of Inner Mongolia which will have two administrative heads. Te Wang (Prince Te of East Sunnit Banner) is said to be the civil head and General Li Shou-hsin (from Dolonnor) the military chief. Li's troops from Manchoukuo have been ensconced in Changpeihsien for some months with a Japanese staff and Te Wang has been forced to extend hospitality to a Japanese military mission since last year.

There is every indication that China has lost control over Inner Mongolia and the sad part of it is that her sovereignty has been lost through stupidity and inaction on the part of the Nanking Government and the intrigues of the Chinese border officials to whom Chiang Kai-shek has blindly entrusted the delicate problem of Sino-Mongol relations. The Mongols themselves have no choice. A simple, nomadic people, they have few men of brains and foresight. The outstanding man is Te Wang whom the Japanese have surrounded and treated with great honor, at the same time holding him a virtual prisoner. Te Wang may live to see a united Inner Mongolia but it will not be the kind he hoped for in which the glories of Genghis Khan would be revived.

While the Japanese military are pulling the political strings for the Mongols the commercial men of Nippon are not asleep. Okura and Company has organized the Daimo Kungssu or Great Mongolia Company with a capital stated to be Yen 500,000 for the purpose of purchasing Mongolian wool for export to Japan. The head office of this new concern is in Hsinking and there are branches at Chihfeng and Dolonnor in Jehol and at Kalgan in southern Chahar. This Mongolian wool is hoped to replace the Australian wool which it is said will not be available under the new Japanese trade protection law against Australian merchandise.

7. Canton and Nanking.

Despite the reports to the effect that fighting has broken out between the Southern troops and the Nanking forces, it is believed that this is not the case. The matter is still in the "talking stage" of the game and each day the possibility of war between Canton and Nanking grows less.

A hopeful sign is the announcement from Canton that they are preparing to send seven delegates to the Second Plenary Session of the Fifth Central Executive and Supervisory Committees of the Kuomintang which is scheduled to be held in

Nanking on July 10th. They are expected to submit certain proposals for consideration but it is believed that the actual agreements, if any, between the two factions will be settled before the delegates ever leave for Nanking.

Meanwhile each side is mending its military fences and talking about "military preparations" in order to give their diplomatic arguments as much weight as possible. The Southwest is having a hard time to agree among themselves on just what front to present to Nanking and the Nanking officials are trying to bargain with the Kwangtung and Kwangsi people separately in order to break any possible unity. The military features of the imbroglio are discussed in G-2 Report No. 9426.

8. Sino-Japanese Relations.

The Japanese military conference recently held in Tientsin (see G-2 Report No. 9409, item 7) has been noted for a lack of any startling pronouncements, which is in keeping with the present Japanese policy in the North functioning under the capable guidance of suave little General Matsumuro in Peiping. General S. Kita, the Japanese Military Attache in Shanghai, has arrived in Tientsin accompanied by Lieutenant-Colonel T. Takahashi. Takahashi now heads the Chinese Section of the Japanese Army General Staff in Tokyo and was formerly Assistant Military Attache in Peiping (see G-2 Report No. 9267, item 7). He has just made a trip to Canton.

General Chang Tze-chung has been installed as Mayor of Tientsin and Major Imai of the Military Attache's Office in Peiping is quoted as saying that Chang never made any claims to being anti-Japanese or the Japanese authorities would never have agreed to his appointment. Smuggling continues and Chinese Customs vessels have fired on Japanese ships, which fact has caused protests from the Japanese. In Tsingtao, Japanese civilians attempted to burn the Chinese Customs House but were kept away by Japanese Consular Police. There seems no end to the incidents which are bound to occur and no solution appears to suggest itself to the Chinese officials whereby they can do aught but bow to the inevitable Japanese dictation.

The keynote in this attitude has been sounded by no less a person than Chiang Kai-shek himself when he announced that the Government would hold to its policy of peace. He directed this speech at the recalcitrant Southwest but it is evident that his views for the unification of China by peace will be extended to his efforts to come to a peaceful settlement with the Japanese. Despite the rumors from Nanking and the efforts of the Chinese to lull themselves into a sense of security by the empty slogan, " Resist to the last man on the line of the Lunghai Railway", this office does not believe any such serious plan is being carried out. Personal inspection has proved that the much vaunted concentration of troops and the building of strong defensive works along the Lunghai line were both a myth.

A certain element among the Chinese is in favor of positive action, another wishes to "wait until we are ready and then fight Japan". The latter is in line with the best Chinese psychology but this school is in grave danger of waking up to find that the Japanese will not permit any serious preparations and by the time the waiters are "ready" to fight, the Chinese Government will be issuing orders from the mountain tops far in the interior and Japan will be in possession of the strategic points of China.

The truth in China is stranger than any fiction ever written about that country. In a time like the present when it would seem natural for every Chinese to have hatred of the Japanese uppermost in his mind, it is a strange commentary on the Chinese character to find that many of the Chinese officials put their rice bowl first and their patriotism second. This is particularly true of the older type of public servant who has not been subjected to the Nationalist propaganda of Nanking, but unfortunately it is not entirely confined to this class.

This condition is the result of a severe struggle for existence in a country where protracted feudalism permitted only the survival of the fittest. It has made the Chinese a race of supreme individualists and to-day the welfare of the individual is his driving motive.

So while Rome is burning we find the question of internal politics, personal preferment and individual profit uppermost in the minds of many of the Chinese officials. The fact that Japan is daily increasing her strangle hold on North China has not as yet penetrated the minds of the individuals in power to the point where they are willing to do anything about it. Students, intellectuals and officials ask in aggrieved and resentful tones, "Why does not the United States stop Japan?" and cannot or will not realize that the Chinese people are the ones who should stand up first against Japanese aggression.

So while the vital question of Sino-Japanese relations is decided by the Japanese, the Chinese politicians still play their traditional game of political hide and seek - hiding from the facts and seeking to get the most for themselves. This is now happening in North China where, if anywhere in the country, feeling should be at white heat over the predatory blustering of Japan.

The Hopei-Chahar Political Council continues to cover a multitude of sins and is ably "assisted" by Japanese advisers (see G-2 Report No. 9387). General Sung Che-yuan is facing a tremendous task and he gets little encouragement from either Chinese or Japanese. It has been rumored that he will be replaced, but he still holds on - not intelligent enough to deal with the Japanese nor crooked enough to be willing to entirely do their bidding.

Unconfirmed reports are to the effect that Sung has been presented again with a series of "proposals" which include:

1) Reorganization of the Hopei-Chahar Council along lines more favored by the Japanese which will result in a greater degree of independence from Nanking.

2) Reorganization of the Chinese military forces in North China as a "protection against Communists". This will include a nucleus of Japanese staff officers and instructors in the units down to and including the regiments.

3) Loans to the Hopei-Chahar Council for the building of certain railway lines to be designated by the Japanese and for the development of industries suited to Japanese needs. These projects of course to be under Japanese advisership.

4) Sung to use his influence to form a coalition of northern provinces to include Hopei, Chahar, Suiyuan, Shansi and Shantung. This of course is Doihara's scheme of some months past but with a few new trimmings.

This office has been unable to confirm these reports as facts but the general trend of events throws shadows before which assume shapes very like these rumors. The fact that Sung Che-yuan has been visiting Shantung and holding conferences with Han Fu-chu, the Chairman of that Province, lends credence to some of these conjectures. Han is the twig whose bending will influence the growth of the whole North China tree and if he can be induced to swallow the Japanese bait North China will be another catch pulled from the China sea to lie gasping in the net of Japanese intrigue.

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COMMENTS ON CURRENT EVENTS

July 4 - 17, 1936

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1. The National Government:
    - Change in Highway Administration
    - Income Tax Law
    - Tungsten Mines
    - Another Office for Chiang
2. French Ambassador Presents Credentials
3. British-Japanese Incident
4. Japanese Interest in South Seas
5. When Will China Fight?
6. Inner Mongolia
7. Japan and Foreigners in China

1. The National Government.

Change in Highway Administration.

According to new resolutions passed by the Executive Yuan on July 2nd, the Ministry of Railways will be in charge of administration of highways in China. The National Economic Council will confine its activities to problems of planning, engineering, communication facilities and other matters of a technical nature. The actual administration of the roads, fares and supervision of bus companies will be handled by the Ministry of Railways which is required to inform the N.E.C. of its work for purposes of coordination.

Income Tax Law.

On July 9th the Legislative Yuan adopted an Income Tax law which is supposed to go into effect on July 9th. It is very complicated and will be most difficult to enforce. An interesting movement has been reported on the part of some of the Chinese who suggest that the income of foreigners in China shall be taxed.

Tungsten Mines.

On July 13th the Ministry of Industries announced that the right to exploit tungsten and tungsten-tin mines in China was exclusively reserved for the Government. This ruling came as the result of a request from the Kiangsi Provincial Administration regarding the possibility of commercial exploitation of this type of mine.

Another Office for Chiang.

On July 14th the National Government issued a mandate appointing General Chiang Kai-shek Chairman as well as Vice-Chairman of the National Defence Commission. This situation is due to the fact that according to law the chairman of the Military Affairs Commission becomes head of the National Defence

Commission and the president of the Executive Yuan its vice-chairman. Since Chiang now heads both the Military Affairs Commission and the Executive Yuan he automatically becomes both "No. 1" and "No. 2" of the National Defence Commission.

2. French Ambassador Presents Credentials.

M. Paul Naggiar, the new French Ambassador to China, who arrived in Shanghai on July 29th (see G-2 Report No. 9423, item 3), presented his credentials to the National Government on July 9th. After a short visit in Nanking the new Ambassador proceeded to Peiping, arriving there on July 13th. The appointment of M. Naggiar is not expected to result in any changes in French policy in China.

3. British-Japanese Incident.

The Sasaki case involving the alleged murder of a Japanese subject in the employ of the Manchoukuo Army by British soldiers (see G-2 Report No. 9423, item 4) has been closed in the British Court convened to try the case in Peiping. Evidence before the court proved that the accused men could not have been implicated in the affair.

Throughout the entire trial the attitude of the Japanese was to the effect that they had investigated the case and that all the British had to do was to hang two of the British Guard! They resented having their witnesses questioned and well they might for the testimony given was very sketchy and contradictory. The actions of the Japanese in criticism of British justice have been the subject of a protest by the British Ambassador in Tokyo which he delivered to the Foreign Office on July 4th.

It is believed that the incident was either deliberately manufactured by the Japanese or that they decided to use the murder, if such actually took place, in an effort to make things uncomfortable for foreign guards in Peiping. The alleged cremation of the body took place with great haste in a country where custom forbids the touching of remains in such cases.

No doubt the Japanese feel that if they can make the British move their Embassy Guard from Peiping other countries will follow suit. Further incidents to embarrass foreign soldiers may be expected. It is interesting in this connection to note that the local Japanese paper says that the only solution for the problem is to "drive the foreign troops from the country".

4. Japanese Interest in South Seas.

The Chinese are much concerned over the news from Tokyo that on July 7th the Japanese Cabinet approved the text of an Imperial Ordnance providing for the organization of a concern to be known as the South Seas Development Company. The plans include the enlargement of the present Japanese organization for Japanese economic expansion in the South Seas to include managing and selling land; managing factories; making loans to farmers, fisherman and immigrants; purchase of products; engaging in banking activities, etc. The reorganized company is scheduled to start operations on January 1, 1937.

The vernacular press considers that the South Seas Development will be the spearhead of Japanese economic penetration in that area much as was the South Manchuria Railway Company in Manchuria.

5. When Will China Fight?

"When will China fight?" is the question which has been in the minds of both Chinese and foreigners for many months. The cord of Sino-Japanese relations has been strained to the utmost again and again only to slacken suddenly in the most unexpected manner so typical of situations in the Far East.

For a long time the Chinese civilians and officials who should know what is going on have said "something will happen in three months" and "Chiang Kai-shek is making preparations to fight along the line of the Lunghai Railway". These repeated statements have influenced a certain amount of foreign opinion into thinking that perhaps China would fight and that the limit of endurance had at last been reached. Careful personal investigation and reconnaissance by this office have proved that while Chiang Kai-shek has been making certain preparations for unifying the country and building up the national defense there was no danger of using these potential weapons in any immediate opposition to Japanese aggression. The "great concentrations of troops and the building of a defense system along the Lunghai" were shown to be myths deliberately fabricated to lull the Chinese public into a feeling of satisfied security.

Great hopes were raised recently by the possibility that the Second Plenary Session of the C.E.C. (see G-2 Report No. 9409, item 1) would discover a solution for solving the domestic imbroglio with the Southwest and at the same time cut the Gordian knot in Sino-Japanese relations. These hopes proved futile as far as can be seen at the present time. The Central Executive Committee session adjourned on July 14th and the delegates are leaving for their homes in various parts of the country.

The domestic situation vis-a-vis the Southwest shows no hope of early solution. Nanking decree has abolished the Southwest Political Council and relieved General Chen Chi-tang from his military command in Kwangtung. General Yu Han-mao, a subordinate of Chen's, has been appointed to take his place as commander of the 1st Army in Kwangtung. The situation now seems to be that Nanking and Kwangsi are struggling for the control of Kwangtung with Chen Chi-tang scheduled to lose out no matter which side wins. Rumors of fighting, defections and intrigues are heard on all sides and the results cannot be foreseen at this time.

With the domestic situation in the South unsolved, the Nanking Government has made no progress in the other major problem confronting the country, - the question of Japanese aggression in North China. Each day sees more Japanese and Koreans pouring into that area. New hotels, "bars", dance halls, drug shops and other evidences of Japanese culture increase daily. Japanese troops parade, insult Chinese and foreigners alike, and the situation continues to become more unpleasant.

Chiang Kai-shek apparently does not realize or cannot see a solution to the condition that is upon China. Manchuria has gone into the Japanese net, Inner Mongolia is being drawn in slowly but surely, and the Japanese hook has fastened firmly in the throat of North China. Chiang's answer to this state of affairs appeared on July 14th when he made a statement on foreign policy at the session of the Central Executive Committee on July 13th, the day before the body adjourned. Some of his remarks are quoted below:

> "To protect China's sovereign and territorial integrity is the basic principle of the Central Government in handling its diplomatic affairs. Any infringement upon China's sovereign and territorial integrity by any foreign nation will drive her to the last extremity, and then she will make the inevitable sacrifice.
>
> "To be more plain, if any foreign power should compel us to sign an agreement for the recognition of 'Manchoukuo' the time will then have come when we will not suffer any longer and when we will make our last sacrifice."

What he is thinking of in making this statement except to save face is hard to tell. China's territorial integrity has been violated in the loss of Manchuria, in the aggression by military missions and "Manchoukuo" troops in Inner Mongolia, in the stationing of the Kuantung Army in Manchuria, in the strangle hold enforced by the Japanese Army on North China, and by many other accomplished facts. These conditions exist and whether or not an agreement has been signed for the recognition of "Manchoukuo" is immaterial. In other words the facts do not count as long as the face is saved. It would be ludicrous were it not so vital to the very life of the Chinese nation. One often wonders how much longer the people of China will continue in their traditional dislike of facing facts, making decisions and taking positive action.

So the question "When will China fight?" remains unanswered. It is believed that China will not fight unless she is backed to the wall and the question is where that wall can be found. The whole tradition, life and psychology of the people are against active opposition. Once roused they have fought well and undoubtedly will fight again, but not until some common cause can be found which will overcome personal ambition and sectional prejudice.

Evidences of this spirit are discernible in certain of the leaders and certain of the units of the Chinese Army. The Central Military Academy is one of the centers from which this doctrine is being spread but China is as yet too individualistic for such leaven to take effect. Even the aggression of Japan and the loss of so much Chinese territory with the continued insults to the Chinese nation have not been sufficient to raise the demand for action which will force Chiang Kai-shek to resist with more than empty words.

6. Inner Mongolia.

Censorship by both Chinese and Japanese curtails news from Inner Mongolia. It is known however from Mongol sources that Japanese aggression continues (see G-2 Report No. 9423, item 6) and that the Mongols are unable to prevent it. The Chinese officials along the border, especially Fu Tso-yi in Suiyuan, are now suffering from the intrigue of years in which their own selfish aims have brought about a condition wherein the Mongols are rendered impotent and an easy prey for Japan.

Te Wang, the head of the West Sunnit Banner of the Silongol League, which comprises all the Banners located in northern and eastern Chahar Province, has been made head of the entire Silongol League. This post was formerly held by So Wang but no information is available as to whether Prince So has been replaced or whether he has died. Prince Te remains a virtual prisoner in the hands of the Japanese though it is understood that he has made a trip to Manchuria by Japanese airplane.

There is no news regarding the rumored government which was to be set up in Changpeihsien (see G-2 Report No. 9423, item 6) with Prince Te as administrative and Li Shou-hsin as military heads. The latest report from there is that Te Wang has reiterated his loyalty to Nanking. If true it is believed to be but an empty gesture since the Japanese influence in Inner Mongolia increases daily. Realizing that Nanking cannot or will not help the Mongols, the Japanese have established military missions from eastern Chahar through Suiyuan to the Ninghsia border at vital points. These "military missions" and the "Manchoukuo" troops under Japanese staffs and instructors which are stationed at Changpeihsien just north of Kalgan with a detachment at Pailingmiao in Suiyuan, definitely separate Inner Mongolia from China.

The hesitance and inaction of Nanking coupled with the intrigues of border officials have lost Inner Mongolia as surely as though the Japanese Army had been forced to occupy the territory. Here is another case of violation of the territorial integrity of China, and Nanking blindly ignores the facts as long as Chiang Kai-shek states that "no agreement is signed".

7. Japan and Foreigners in China.

On July 9th the Japanese forces in Peiping held a parade on the streets of Peiping during which there were several occasions when foreigners were handled roughly for taking pictures. The next day foreign newspaper correspondents called upon General Matsumuro, head of the Special Service Department of the Japanese Garrison in North China. Many questions were asked him at that time and as his answers may have considerable effect on both Chinese and foreigners in China the Reuter's account is quoted below:

> "The General was first asked the reason for the unusual demonstration. He replied that it was nothing special. The Japanese army, whether at home or abroad, carried out such exercises. He saw nothing extraordinary in the demonstrations.
>
> "The next question was, why certain foreigners yesterday were prevented from photographing the demonstration. General Matsumuro replied that no one in Japan was allowed to take pictures of the tanks. 'There is a Japanese military law which protects the secrets of armaments. This law applies to these tanks here.'
>
> "But this is Chinese territory is it not?—The tanks belong to the Japanese army which has the right to protect its own laws.
>
> "If the tanks are a secret then why parade them? —It is harmless to look at them but it is not allowed to take pictures of them.
>
> "By what right did certain Japanese soldiers take away a film from one foreigner yesterday?—Because the foreigner took pictures.
>
> "It was pointed out that Japanese military law did not apply in a Chinese city, whereupon the General replied that those wanting to take pictures should ask for permission otherwise, 'it is against our will and against morality'. For instance you cannot take a picture of me without my permission.
>
> "To this one correspondent replied, 'Yes, but if a picture is taken of you without permission you take civil action, not use military force'.
>
> "General Matsumuro: We have the right to protect an important military machine which belongs to the state. He added that Japanese ideas on this subject were different to those of foreigners. This was conceded, but correspondents pointed out that this was a foreign country and that Japanese had no rights over foreigners here.
>
> "General Matsumuro: 'My experience and feeling is that foreigners in Japan and China emphasize their own rights and ignore Japanese rights. This is based on the superiority complex of the white people and unless this is rectified the maintenance of world peace will be very difficult.'
>
> "When asked who would pay for the damage done to the streets by the tanks the General replied that the Japanese authorities made previous arrangements with the Chinese authorities. The route at first considered was to the Summer Palace but this was changed. They had a previous understanding with the Chinese authorities, he added.
>
> "When asked if Japanese subjects had the right to take pictures of the tank demonstration the General replied that they had not.

"It was pointed out that the tank parade constituted a public spectacle, and that it was physically impossible to prevent pictures being taken, whereupon the General agreed that it was physically impossible to prevent all pictures being taken.

"He was next asked what instructions were given to Japanese soldiers in the event of a photograph being taken. He replied that the aim of the instruction was to protect the machines and this must be done peacefully as far as possible.

"What happens if it can't be done peacefully?—I don't know that. It depends on circumstances.

"The General has said that permission should be asked: will he give us permission to photograph the tanks?—That depends on the army officer in command of the parade.

"He went on to remark that the Japanese soldier was taught to respect his weapons as his life, and that the soldiers therefore prevented photographs of their tanks being taken.

"Turning to other matters the General was asked if he had any information as to the mission of Mr. Wang Keh-min to North China. He said he did not know, but understood that it was to make adjustments in financial and economic matters. He said that he had received instructions from Tokyo to assist Mr. Wang. What the Japanese wanted in North China was to see real economic development and a peaceful situation brought about so that when a man like Mr. Wang took a post to re-adjust such matters it would bring about enormous good for China, Japan and the whole world.

"He was asked if the Japanese were satisfied with their present affairs in North China and replied 'No'.

"In what way are you not satisfied?—That would be a long long story, and very sad for China."

For and in the absence of the Military Attache:

S. V. Constant

S. V. Constant
Major, Cavalry
Assistant Military Attache

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WAR DEPARTMENT

COMMENTS ON CURRENT EVENTS

July 18--31, 1936

RECEIVED G/2 W. D. AUG 27 1936

1. Japanese Statements of Policy
2. Tsangchow-Shihchiachuang Railroad
3. New Members for Hopei-Chahar Council
4. Impeachment of J. Heng Liu
5. New Life Movement in Peiping
6. Doihara to Return to China?
7. Wang Keh-min to head Economic Commission
8. Opium Suppression in Peiping
9. Smuggling Continues
10. Tientsin Shooting Incident Settled
11. Japanese Cotton Monopoly in North China

1. Japanese Statements of Policy.

A Reuter dispatch from Tokyo says that the Japanese Army considers it premature to merge the East Hopei Government with the Hopei-Chahar Political Council, because "as long as China bars Japanese goods through high tariffs Japan will not be able to extend assistance to what appears to be an anti-Japanese administration in preference to another which is clearly pro-Japanese".

This statement rather clarifies the atmosphere. The Sung administration is not considered as being friendly and cannot expect any help from Japan until the tariffs on Japanese goods are lowered. So smuggling can be expected to continue as before, unless the Chinese make it as cheap for Japanese goods to enter Hopei and Chahar as it is for them now to enter the East Hopei area, and since Sung Che-yuan's administration has been tagged as "apparently anti-Japanese" we know what to expect for it and for him unless the attitude changes.

Another Tokyo dispatch reports that a meeting of officials of the Ministries of War, Navy and Foreign Affairs has decided on a stronger policy in North China, in the event that Nanking, "ignoring Japan's special position, continues to play off one power against another". Apparently the Sino-German barter agreement and talk of a Sino-American loan are worrying the Japanese, who can see these credits being used for the purchase of munitions. The semi-official announcement issued after the meeting closes with the threat that "China would well be advised to show sincerity in solving the North China imbroglio in a manner acceptable to Japan".

This is typical Japanese logic. The imbroglio created by them in defiance of law, custom and treaty, is to be solved by China's agreeing to their conditions for its settlement, and the Chinese are charged with insincerity because they do not agree, and with the rather vague crime of "playing off one power against another", because they are trying to get the means somewhere to defend themselves.

2. Tsangchow-Shihchiachuang Railroad.

Mr. Chen Chueh-sheng, manager of the Peking-Mukden Railway, is reported to be carrying on negotiations with the Tientsin Japanese authorities for the building of the Tsangchow-Shihchiachuang railroad. It is a foregone conclusion that all construction materials will come from Japan, and the only question is where and how the loan will be raised to finance the undertaking.

The completion of this line will give a much more direct outlet for Shansi coal to the Tientsin area, and make the whole province much more accessible. Incidentally, troops will be able to reach Taiyuanfu from Tientsin much more quickly than now. This is just another step in the Japanization of North China.

3. New Members for Hopei-Chahar Council.

Nanking, still going through the motions of being in control of Peiping, on July 21st appointed four new members to the Hopei-Chahar Political Council, - Tsao Ju-lin, once minister of foreign affairs in the Peking Government, Tang Erho, once minister of finance, General Liu Ju-min, Chairman of the Chahar Provincial Administration, and Ko Ting-yuan, director of the Changtu Salt Inspectorate. The Executive Yuan, in making these appointments, did not include General Shih Yusan, who is still in bad odor at the national capital, but that did not seem to make any difference because General Shih assumed his post anyway. Some of the new appointees, especially Tsao Ju-lin, are rather slow in making up their minds about serving, - the endorsement of Nanking not being the most desirable recommendation to the de facto lords of North China.

4. Impeachment of J. Heng Liu.

The Control Yuan announced on July 21st that it would impeach J. Heng Liu, Director of the Central Health Administration. He will be charged with embezzlement and misappropriation of funds. The total amount involved is about $165,000 Mex., and as Dr. Liu has had to build himself a new house in Nanking, like many other officials, this action probably looks like spite to most Chinese. To the average Chinese official of high rank $165,000 is small change.

If similar action could be taken against all offenders in pecuniary matters, it would be extremely difficult to get a quorum to try the cases; needless to say, there is a distinct line drawn where the urge for purity in public affairs calms down under the influence of high position. Dr. Liu, like his confreres, operates under a code different from ours; conceivably, the transaction was in the nature of a loan, which might have been repaid in time, but in any event this must not be regarded as an isolated case to be punished severely on account of its enormity. On the contrary, it is only a single manifestation of a very common failing, and Dr. Liu probably does not deserve all the opprobrium that will be heaped upon him by many of his contemporaries who could be bought even more cheaply.

5. New Life Movement in Peiping.

General Sung Che-yuan issued an order on July 20th prohibiting people from smoking cigarettes or eating while walking on the streets. The General's interest in the morals and welfare of his people is thus made manifest, - from now on the streets are to present an air of quiet dignity and old-time decorum. All the more robust activities of the populace, such as spitting and committing nuisance, will of course be retained.

6. Doihara to Return to China?

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The Chinese press reports that General Doihara is to return to North China about the end of July to confer with Generals Tashiro and Matsumuro, and that he may remain indefinitely to take charge of negotiations with the Chinese on various Sino-Japanese problems. Doihara apparently never reached the 12th Division to which he was assigned when he left China a few months ago.

Doihara's presence is bad medicine for the Chinese. If it is felt in Japan that Tashiro, Matsumuro, Kawabe & Co., have to be reinforced by Doihara, then it is safe to say that something important and out of the ordinary is on foot.

7. Wang Keh-min to Head Economic Commission.

Wang Keh-min, the old Anfuite, has been appointed to head the Economic Commission of the Hopei-Chahar Council, and the promptness and enthusiasm with which all the Japanese officials in North China were directed by their home government to assist Mr. Wang in every way possible leads one to suspect that Mr. Wang's future policy will be very acceptable to them. It is quite possible that the Japanese have overreached themselves; they have so advertised Mr. Wang as their man by this action that he has felt constrained to hesitate about accepting. Figureheads of sufficient proportions are becoming scarce, and if Mr. Wang is frightened off by this undue and unexpected warmth of welcome, the Japanese will have a hard time finding a suitable replacement. And if, as suspected, they are about to put more emphasis on economic development in the north, the loss of Mr. Wang might be very embarrassing.

8. Opium Suppression in Peiping.

The following is a translation of an advertisement recently given wide distribution here through the mails. It is self-explanatory:

> "I have been addicted to opium smoking for more than ten years. During the past the opium used by me was generally bought from the secret dealers. Its quality was not only inferior but also its price was

> very dear. Yesterday, through a friend's introduction, I bought from the Li Kang Drug Store five ounces of taxed Jehol opium of the special grade. After smoking it, I felt the niceness of its flavour and the greatness of its strength. It only cost me $3.00 per ounce for the purchase of this special grade of opium. They also sell the 1st grade at $2.80 per ounce; the 2nd grade at $2.60; the 3rd grade at $2.50; the Liangchow product at $1.90. All goods sold are affixed with revenue stamps thereon. If 100 ounces or more are purchased, a reduction of ten cents per ounce will be allowed. The prices fixed are really moderate and the quality of their products is indeed excellent. The Li Kang Drug Store is located at No. 10, Hsi Tung Pu Hutung, East City, Tel. No. 1593, East Office. Their goods can be delivered to any address on request by a telephone call. Fellow smokers, once you have made a trial you will be convinced of the truth of my words.
>
> A Fellow Smoker."

9. Smuggling Continues.

The establishment of preventive offices at various points on the railroads south of Peiping has resulted in the confiscation of considerable goods. The smugglers still find means to avoid these stations, however, and large quantities of contraband continue to pour in. It is too early to say that a definite turn for the better has come, but after the market has absorbed the overdose it received a month back, the value of the preventive service can be easily determined. On the whole, the Chinese seem to be taking heart in the matter and may be spurred on to oppose this racket determinedly.

10. Tientsin Shooting Incident Settled.

On July 21st a Chinese named Tsou Feng-ling was arrested in the Japanese Concession in Tientsin by Japanese police for carrying a pistol and acting in a suspicious manner. Tsou, a company commander in the Pao An Tui stationed at Municipal Headquarters, told conflicting stories, and the next day was taken in a car to where he claimed to live, to have his claims checked. He was handcuffed to a Chinese detective on the Japanese police force and in passing Municipal Headquarters called out to the guard that he was being abducted. The guard, seeing their officer apparently being kidnapped, stopped the car and opened fire, killing the Chinese detective, one Chang Teh-lu, to whom Tsou was handcuffed, and wounding the chauffeur and another detective.

The Japanese at once reacted, and presented the usual demands to the Mayor, General Chang Tze-chung, i.e., punishment of those responsible for the shooting, compensation for the family of the detective ($3,000), medical expenses for the wounded men to be paid by the city, expense of repair of motorcar to be paid by the city. The Chinese authorities accepted the terms and also assured the Japanese that similar incidents would not again occur. The Chinese press reports that Tsou Feng-ling, who was responsible for the incident, was in the Japanese Concession to purchase drugs when apprehended and that the Mayor had him shot as much for this offense as for causing the killing of the detective.

So many precedents now exist for the prompt settlement of such cases that it is hard to see how any serious complications can result from future ones. The Japanese put forward their demands; the Chinese accept them in toto; and so a friendly compromise is effected and celebrated with a bottle of champagne. Tsou ought to have been shot anyway, the detective's family has $3,000 - with possibly a few commissions deducted - to deaden the shock of the bereavement, and it is quite simple to assure everyone that no similar outrage will ever again be committed.

11. Japanese Cotton Monopoly in North China.

The goings to and fro in North China of numerous Japanese business men during the past few months are beginning to bear fruit. The transfer of the last of the Chinese cotton mills in Tientsin to Japanese control is only a matter of weeks, and it is now reliably reported that the Japanese are planning to buy the mills at Tangshan, Shihchiachuang and elsewhere so as to create an effective monopoly. The cotton business is only one phase of an economic invasion for which the reconnaissance has been thoroughly made, and other manifestations of Japanese activity may be expected at any time.

Joseph W. Stilwell,

Joseph W. Stilwell
Colonel, Infantry
Military Attache

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COMMENTS ON CURRENT EVENTS

August 1 - 14, 1936

RECEIVED G/2 W. D. SEP 11 1936

1. Lin Sen Interviewed
2. Abolition of Extraterritoriality in Manchoukuo
3. Japanese Naval Maneuvers
4. New Adviser for Hopei-Chahar Council
5. China to Manufacture her Own Motors
6. Tsangchow-Shihchiachwang Railroad
7. English Rolling Stock for Canton Hankow Railway
8. Results of Smuggling on Silk and Sugar Industries
9. New Phase of Economic Development
10. Sung Che-yuan in Paotingfu
11. New Member of Hopei-Chahar Council
12. An American Appreciation of Chinese Altruism
13. Ch'en Chi-t'ang Still in Hongkong

1. Lin Sen Interviewed.

Mr. Lin Sen, Chairman of the National Government, in other words, President of China, was interviewed recently. Mr. Lin said that the press should publish more details about the hardships and sufferings of the people so that the government can keep informed and take action.

Mr. Lin also said that there were too many patent medicine advertisements in the papers.

Other important matters of state Mr. Lin left for General Chiang Kai-shek to talk about.

2. Abolition of Extraterritoriality by Manchoukuo.

The Department of Foreign Affairs of the Manchoukuo Government has issued an unofficial translation of the statement made by the Minister for Foreign Affairs of the Manchoukuo Government, concerning the status of foreign nationals in Manchoukuo other than Japanese, on the occasion of the partial abolition of extraterritoriality by Japan on July 1, 1936, as follows:

> "Availing myself of the occasion when a treaty has recently been concluded with Japan concerning the residence, taxation, etc., of Japanese subjects in this country, I wish to clarify the views and intentions of our Government regarding the status in our country of foreigners other than Japanese subjects.
>
> "At the time of its foundation Manchoukuo issued a statement and addressed communications to the Powers to the effect that it would respect those rights enjoyed by foreign countries by virtue of their treaties with the

the Republic of China, which the new State is bound to respect according to international law and usage. While some foreign countries enjoy extraterritoriality in China in accordance with their treaties with that Republic, it is self-evident in the light of international law and usage that this State, which has separated itself from, and become independent of, China, is not bound to succeed to, inter alia, such obligations as those imposed by extraterritoriality, and it naturally follows that the nationals of the countries which enjoy extraterritoriality in China do not differ in any respect from those whose countries do not enjoy the same right there, so far as their status in Manchoukuo is concerned. This is all the more true when we recall that although more than four years have already elapsed since this State issued the aforementioned statement and communications, no foreign nation, with the exception of a very few, has responded to them which have thus been reduced to a mere, unilateral declaration of the principles of our foreign policy, and those countries that have ignored the said statement and communications are not in a position to claim any right on the strength of these documents. It is, therefore, the laws and regulations of this country that should govern the status of the nationals of these countries residing in our territory, and in respect of their entry, residence, travel, business and all other matters, they are subject to our laws and regulations.

"Nevertheless, as regards the nationals of the countries which have enjoyed extra-territoriality in the Republic of China, our Government, with the intention of avoiding sudden change in their status, have heretofore, as a matter of favour, accorded them in effect and within certain limits such treatment as if their countries had continued to enjoy extraterritoriality in this country.

"Considerable time, however, has already elapsed since the foundation of the State, its basis has now been solidified, and the adjustment of its various institutions is becoming increasingly marked. Moreover, Japan, which enjoys by treaty extraterritoriality in our country in accordance with the Manchoukuo-Japan Protocol signed on September 15, first year of Tatung (1932), and whose nationals resident in our territory number considerably and whose investments in this country reach an enormous sum, has decided to abolish voluntarily and by gradual degrees her extraterritorial rights in order to assist the healthy development of our country.

"In view of these facts, this Government now regard that the continuation of such a generous treatment accorded to certain foreign nationals is not only unnecessary but is also impedimental to the administration of this State, and have decided to abolish this special treatment by gradual steps. It goes without saying, however, that in dealing with this matter this Government will be guided by the spirit of conciliation.

"Furthermore, it should be added that our Government is desirous of coming to agreement with countries other than Japan regarding the status of the respective nationals resident in each other's territory upon the principle of justice, fairness and equality, and are prepared to consider the proposals for opening negotiations looking toward this end."

COMMENTS: In other words, Japan gives the world a noble example by renouncing her extraterritorial rights in Manchoukuo, and Manchoukuo then abolishes extraterritoriality for everybody. All foreigners are thus on a basis of equality of opportunity and treatment, - Japanese, English, American, French, etc., etc. The joker is that every office in Manchoukuo is dominated by the Japanese adviser who sits at the elbow of the native official; equality of treatment automatically becomes a farce under such circumstances, and the net result is that nobody but Japanese have any privileges at all, while they have more than they ever had with extraterritoriality in effect.

3. Japanese Naval Maneuvers.

The Japanese Navy, beginning about August 4th, held maneuvers off the Fukien coast on an unusually large scale. This activity, in connection with the placing of Formosa on the same status with Korea, with a military governor appointed directly by the Emperor, is indicative of the navy's intention of getting some of the limelight now monopolized by the army. The navy, as the sponsor of the "Southward Advance," will probably be the main actor in further steps to strengthen the Japanese influence in South China, as well as in the islands to the south of Formosa, the nearest of which are the Philippines.

4. New Adviser for Hopei-Chahar Council.

Mr. K. Nishida, who was formerly Consul-General at Tsinanfu, has been appointed (August 2) chief adviser to the Hopei-Chahar Council. A Japanese who has been a consul-general cannot be expected merely to give advice; the assignment of a man of this type to such a position considerably tightens Japanese control of the affairs of Hopei and Chahar.

5. China to Manufacture her Own Motors.

China's first step in the motor industry will be attempted by the China Automobile Manufacturing Company, which hopes to build enough cars by 1940 to supply all domestic demands. China's large importation of foreign cars has apparently aroused the ambition to take this profit away from the foreigners. There is no need for American manufacturers to be unduly alarmed, - this concern can hardly be more than an assembly plant for parts, or just another factory for turning out home-made bodies.

6. Tsangchow-Shihchiachwang Railroad.

Plans for the construction of this line are taking shape. It is now admitted that Mr. Ch'en Chueh-sheng, Chairman of the Hopei-Chahar Council Communications Committee, has been dickering with Mr. Ota, of the Tientsin office of the South Manchuria Railway, and that tentative decisions have been made about technical co-operation and supply of materials. In other words, the South Manchuria Railway Company will build it.

7. English Rolling Stock for Canton-Hankow Railway.

24 locomotives and 430 passenger and freight cars have been ordered from England for use on this line, and delivery is expected before the end of the year.

8. Results of Smuggling on Silk and Sugar Industries.

So much smuggled sugar has been dumped in North China that dealers have cancelled all orders for domestic sugar, with the result that the industry is threatened with bankruptcy. Growers who cannot sell their cane are turning to other crops for a livelihood.

Similarly, the over-dose of rayon from Japan has caused the closing of some 70 silk factories and shops in Tientsin alone during the past few months.

9. New Phase of Economic Development.

Tientsin's newest industry, a plant for the manufacture of heroin, established on Race Course Road by nine Japanese, was raided recently by the Chinese police and Japanese consular police. The Japanese police took all the apparatus to their own station, denying the Chinese any opportunity to examine it, thus assuring the infant industry a new lease on life in some more favorable location.

10. Sung Che-yuan in Paotingfu.

General Sung's announced inspection trip to south Hopei has not yet taken him beyond P aotingfu, where the watermelon market was thrown into confusion by Sung's order of 24,000 melons for distribution to his troops. Only 3,000 watermelons could be supplied at once, but the dealers promised delivery in full within 24 hours. It is not known whether there was any connection between the watermelon purchase and the ensuing fly-killing campaign. Every inhabitant of Paotingfu was ordered, according to the Chinese press, to kill 300 flies, failing which the penalty was a further quota of 1,000. Late returns indicate that all concerned had qualified. Presumably operations are now over for the season. This is a sample of the way the New Life Movement is spreading in China.

11. New Member for Hopei-Chahar Council.

Ch'i Hsieh-yuan, former Governor of Kiangsu and a follower of Wu P'ei-fu, has been appointed to the Hopei-Chahar Council. Ch'i Hsieh-yuan has been out of the picture since 1924, when Wu P'ei-fu's downfall was precipitated by the treachery of Feng Yu-hsiang. The question now is whether Nanking will confirm the appointment, - the central authorities have not yet confirmed Shih Yu-san, but neither he nor the council seem to mind, so presumably Ch'i Hsieh-yuan will take his seat also.

12. An American Appreciation of Chinese Altruism.

Dr. R. A. Ward, American Methodist Episcopal missionary in Nanking, broadcasts as follows:

> "Approximately a million people fleck to Nanking each year to seek for a chance to contribute creatively to the new national life. It is true that many of these people have a hard time seeking jobs, but their enthusiasm in doing their part in the creative work is by no means dampened."

Dr. Ward has been in China for 27 years.

13. Ch'en Chi-t'ang Still in Hongkong.

Like Sun Yat-sen, Ch'en Chi-t'ang finds British sovereignty in Hongkong a convenience. It is said that many Chinese have talked a lot about getting back the foreign concessions, but that Ch'en is one of the few who have done anything about it, - he having personally bought back nearly half of Hongkong.

Joseph W. Stilwell

Joseph W. Stilwell
Colonel, Infantry
Military Attache

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COMMENTS ON CURRENT EVENTS

August 14 - 28, 1936

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2. Another Incident at Fengtai
3. Cleanliness Campaign in Peiping
4. Japanese Population in North China
5. Tsang-Shih Railway
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1. Visit of the Japanese Ambassador:

The most important event in North China during the period of this report would appear to be the visit to North China of Mr. Shigeru Kawagoe, the Japanese Ambassador to China. It had been freely predicted in the press that Mr. Kawagoe's visit would be a signal for the renewal of active negotiations between China and Japan and would possibly be followed by definite Japanese action in North China, action which for some weeks has been conspicuous by its absence.

Mr. Kawagoe left Shanghai on the 13th of August, stopped over at Tsingtao for an "inspection" of Japanese interests in that port, and flew to Tientsin on the 17th, arriving in Peiping by special train the next day.

After calling on General Sung Che-yuan, attending a round of entertainments in his honor, and issuing a lengthy and rather vague statement to the press, he returned to Tientsin on the 20th to open a conference of Japanese consular officials stationed in North China.

According to Mr. Kawagoe's statement to the press, his visit to Sung Che-yuan was occupied with a general discussion of the question of the economic development of North China. No concrete proposals were made, so Mr. Kawagoe said, as to how this development should be brought about.

Mr. Kawagoe went on to say that he had called General Sung's attention to the fact that while North China enjoyed the blessings of excellent climate and fertile soil, the farmers of the area were in a very sad plight. (General Sung apparently did not call Mr. Kawagoe's attention to similar conditions prevailing in Japan.) He had expressed the hope, said Mr. Kawagoe, that General Sung would use his influence to improve agricultural and industrial conditions in the area under his control. This was primarily a Chinese responsibility, according to Mr. Kawagoe, but Japan, which had made much progress in the promotion of industry, would be glad to render assistance by furnishing materials, and if necessary funds.

Mr. Kawagoe informed the press representatives that he had pointed out to General Sung the importance of wiping out communist influence in North China, as this not only menaced the peace and order of China but might constitute a serious threat to neighboring countries.

When asked if Sino-Japanese negotiations would begin in September, Mr. Kawagoe said that he had received no advices from his government to that effect, but that he had been instructed to make preparations to start such negotiations with China for the readjustment of relations between the two countries. He further intimated that further Sino-Japanese negotiations would be carried on direct with the Chinese Central Government.

"Japan's policy toward China has long been fixed," said Mr. Kawagoe, "and is not likely to be changed. In the forthcoming negotiations, Japan still hopes to adhere to her 'three principles' as outlined by Mr. Hirota." (Note: The "three principles" are (1) Japanese co-operation in anti-Red campaign; (2) Suppression of all anti-Japanese activities; (3) Recognition of Manchoukuo.)

Mr. Kawagoe expressed the opinion that if political conditions in North China could be stabilized, in other words made acceptable to Japan, Japanese capital would naturally flow into the area, as opportunities for favorable investment would be numerous.

A member of Mr. Kawagoe's entourage, the First Secretary of the Japanese Embassy in Nanking, in an informal conversation with a member of our Peiping Embassy Staff, expressed views somewhat different from those of Mr. Kawagoe concerning the prospects for Japanese co-operation in the economic development of North China. He stated that iron deposits in Chahar had been found to be so scattered as to offer little encouragement for profitable exploitation and that the Japanese railway experts were still undecided as to the best route for the proposed Tsangchow-Shihchiachuang Railway.

The meeting of Japanese consular officials stationed in North China, presided over by Mr. Kawagoe, opened in Tientsin on August 23rd. In addition to the consular officers, important military and naval officials were in attendance, including

Lieutenant General Tashiro, Commander of the Chinese Garrison in North China, and his Chief of Staff, Major General Hashimoto; Major General Matsumuro, head of the Special Affairs Section of the Japanese Garrison Headquarters; Lieutenant Colonel Sadaki Kagesa, of the Ministry of War, Tokyo; and Commander Nakamura of the Naval Affairs Bureau of the Japanese Navy Ministry. Mr. Ichiro Ohta of the East Asiatic Bureau of the Foreign Office also attended. Commander Nakamura, Colonel Kageso, and Mr. Ohta were present, according to the press, to report the views of the Tokyo authorities concerning Sino-Japanese relations in North China.

In addition to meeting in joint session with the consular officials, the military and naval representatives held special meetings of their own.

The results of the conferences held in Tientsin are of course held as secret as possible, but the Japanese press reports that "a perfect accord" concerning policy in North China has been reached by all those in attendance.

Mr. Kawagoe left Tientsin on the 24th of August for Tsinan where he is to confer with General Han Fu-chu, Chairman of Shantung. He is scheduled to leave Tsinan for Shanghai on the 27th.

Before leaving for Tsinan, Mr. Kawagoe informed representatives of the foreign press in Tientsin that the "perfect accord" as reached by military, naval and consular officers during the Tientsin conferences was to the effect that Japan must give technical assistance to the Chinese authorities in economic development. He further stated that General Sung Che-yuan concurred in his opinion for the necessity of economic exploitation in North China. Japan hoped, said Mr. Kawagoe, to effect economic collaboration in Hopei Province in such a way that it could be gradually extended to Shantung, Shansi, Honan, and eventually to all of China with a view to promoting the welfare of the Chinese people.

Mr. Kawagoe also reiterated the now familiar claim that Japan has no territorial ambitions in China, although he admitted that "the various aspects existing in North China may appear to indicate such."

As to what new Japanese action, if any, is presaged by Mr. Kawagoe's visit and the holding of the conferences in Tientsin, it is difficult to predict. The net result of Mr. Kawagoe' s statements contain little of interest, simply reiterating that Japan is determined to have a hand in the economic development of North China and that the Red menace must be combatted. This is no news to anyone, but of course "economic development" always entails the strong possibility of close military supervision; while advice on the subject of Red eradication always conveys the threat that lack of satisfactory action along this line by the Chinese may result in Japanese "co-operation," in other words, complete domination of Chinese military forces in North China.

The quiet situation prevailing in North China during the past month or so apparently indicates that Japanese policy in this area has either been deliberately soft-pedalled or has perhaps been slowed down by developments both in and outside of China. The lull may merely indicate that Japan is gathering herself for some new and definite step. There is a possibility, however, that the present situation vis-a-vis Russia and the Chinese Central Government may have forced upon even the Japanese military faction the conviction that Japan is very widely extended on the mainland of Asia and that further expansion in China might necessitate the expenditure of military and financial resources which cannot be spared at the present time.

Up until the failure of General Doihara to put over his five-province autonomy coup in North China, Japan had received practically no checks in her dealings with China. Recently, however, it would appear that she has been retarded, or at least slowed down, in the following ways:

(1) Failure to compel Shantung, Shansi and Suiyuan to join with Hopei and Chahar in separating themselves from the control of the Central Government.
(2) Chiang Kai-shek's successful handling of the Southwest defection.
(3) Failure of the recent Japanese supported attacks on Eastern Suiyuan.

Against the above named "checks", however, must be listed the following recently accomplished steps in Japanese domination of North China:

(1) Increase of Japanese garrison in North China.
(2) Forcing of Japanese advisers on the Chahar-Hopei Political Council.
(3) Establishment of the East Hopei autonomous regime.
(4) Occupation of Fengtai by Japanese troops.
(5) Crippling of the Chinese Maritime Customs service in North China by Japanese protected smuggling.

Recently the French Military Attache, in conversation with the Military Attache, expressed the opinion that Japan had about reached the end of her rope in North China as she could not further extend her military forces in this area. While unwilling to subscribe to such a viewpoint, this office is of the opinion that the immediate future may at least bring definite developments to indicate whether or not Japan has been slowed down in North China. If Japan has actually been checked, two possible causes are readily discernible. One is the recently declared intention of Soviet Russia to increase her military forces by one million men; and the other the so-called "limit of aggression" as delineated by Chiang Kai-shek to the Second Plenary Session of the 5th Central Executive and Supervisory Committees of the Kuomintang on July 13, 1936 (see Par. 5, Report No. 9439). Marshal Chiang's statement of policy on this occasion was as follows:

> "(1) A definite limit to foreign aggression has been set by the Fifth National Congress (November 12-23, 1935) and 'limit' means the preservation of territorial and sovereign rights; (2) the Government will not (a) tolerate foreign encroachment on Chinese territorial and sovereign rights: (b) enter into any agreement derogatory to these rights; (3) after exhausting all political and diplomatic means; failure by the Government to remove any encroachments which may have been effected subsequent to the Fifth Congress will be the limit of China's patience."

The immediate future may give Chiang Kai-shek an excellent opportunity to show whether or not he meant what he said.

2. Another Incident at Fengtai.

Another in the expected series of clashes between Japanese and Chinese at Fengtai occurred on August 21, when a Japanese cook named Taro Morikawa, employed in a café there, was bayonetted in the stomach by a sentry of the 220th Regiment of the 37th Division of the 29th Army. A joint board of Chinese and Japanese officers is making an inquiry into the affair.

Regardless of the rights in such matters, the only result can be an increasing tendency on the part of the Japanese to get rid of all irritating influences, of which the 29th Army must be considered the principal one.

3. Cleanliness Campaign in Peiping.

Not only is smoking now prohibited on the streets of Peiping, but General Sung Che-yuan has gone to the extreme of forbidding children to commit nuisance there. Any children violating his order are to be arrested and punished, - how is not stated. If this order is carried out, there will be no room in the city jails for adults.

4. Japanese Population in North China.

The Tientsin Japanese Consul-General reports the Japanese population of North China as close to 20,000. Tientsin has 10,000; Peiping 4,500; Shanhaikwan 1,600; Tangshan 1,000; Chinwangtao 700; Luanchow, Tangku, Changli, Kupeikow and Tangku from 200 to 400 each. The total is increasing daily.

5. Tsang-Shih Railway.

Further reports about the construction of the railway from Tsangchow to Shihchiachuang indicate that the plan has been approved in the Hopei-Chahar Council and plans made by the Communications and Economic Committees. The cost is now estimated at 18 million dollars.

On August 26th Mr. Sogo, General Manager of the Hsin Chung Co., a branch of the South Manchuria Railway entrusted with economic development plans in North China, stated in an interview with a Reuter's correspondent that preliminary negotiations between his company and the Peiping-Liaoning (Peiping-Shanhaikwan) Railway had been concluded, as a result of which it was decided that the S.M.R. would provide railway material and technical experts while the Peiping-Liaoning Company would be responsible for financing the construction and the recruiting of workers. The above would indicate that Japanese capital is somewhat reluctant to invade a field in which existing political conditions are more or less uncertain.

If this road is built with the assistance of the S.M.R. it seems natural to assume that Japanese garrisons will be stationed at Tsangchow and Shihchiachuang to protect it, in which case the limit of aggression laid down by Chiang Kai-shek in the recent Plenary Session of the Central Executive Committee will be exceeded and a direct challenge made to him by the Japanese Army.

6. Japanese Foreign Policy vis-a-vis China.

Mr. Arita's interpretation of Japan's policy towards China includes the establishment of a so-called "ideal area" in North China, to serve as a buffer region, presumably against attack from the south. Regardless of protestations to the contrary, such an area could not be "ideal" in the Japanese sense without being under Japanese control politically as well as economically. Such control is constantly growing, slowly at present, but none the less surely, and it only remains to bring Suiyuan, Shantung and Shansi under the influences now dominant in Hopei and Chahar for the Japanese to reach their goal.

7. New Definition of Desertion.

In a recent speech Chiang Kai-shek praised General Yu Han-mou and the Cantonese land, air and naval forces, and especially "the pilots who braved death in running away from Canton during the rebellion". He also expressed deep gratification to General Yu Han-mou for the unselfishness of himself and his subordinates in "voluntarily giving up their military rank for the cause of the state, thus opening a new page in the history of revolutionary soldiers since the Republic was founded".

It may be a new page, but it is out of the same old book, and the facility with which Chinese commanders can be bought and sold does not augur well for the success of a major struggle with a real power.

8. Encouragement for Kansu Officials.

Chiang Kai-shek has issued an order to the Kansu Provincial Administration forbidding any and all officials from leaving their posts on the approach of bandits. The penalty for such action is to be execution. This order will make tenure of office in Kansu anything but a sinecure; if the official sticks to his post the bandits will kill him, and if he doesn't the provincial authorities will.

9. Encouragement of Japanese Investment in North China.

Another indication of the great reluctance of Japanese financiers to invest in North China is the despatch by the Foreign Office of Mr. Kuwashima, Chief of the East Asiatic Affairs Bureau, to Osaka and Kobe for the purpose of persuading Japanese industrial magnates to co-operate in the plans of the Foreign Office. The Japanese industrialists are to be told in detail about these plans in the hope that funds will be forthcoming for the development of mines, railways, and the textile industry inside the Great Wall. Up to date, beside the South Manchuria Railway, no Japanese source of funds has been willing to take the risk.

10. East Hopei Revenues.

It is reported that the independent customs established by the East Hopei autonomous regime has in the last five months collected 6 million dollars. Since the tariff rates in this region are only one-fourth to one-eighth of the regular Chinese customs, the drain on the Central Government finances from this leak is easy to calculate.

11. New Ambassadors.

The new Ambassador to Russia, replacing Mr. W. W. Yen, is to be Mr. T. F. Tsiang, the director of the Political Affairs Department of the Executive Yuan. Mr. Tsiang is 42 years old, and is considered a leading authority on Chinese-foreign relations.

It is reported here that Mr. C. T. Wang will replace Mr. Alfred Sze as Chinese Ambassador at Washington.

12. Coming National People's Assembly.

The Chinese press contains many accounts of ceremonies now being held throughout the country in which the people of China are taking the oath of citizenship in order to qualify to cast votes for delegates to the National People's Assembly, which is scheduled to open in Nanking on November 12, 1936. Apparently great effort is being made in these ceremonies to impress the new citizens with the duties and responsibilities of citizenship.

The regulations concerning the selection of candidates for election as delegates to the congress, according to the Chinese Central News Agency, are as follows:

(1) Candidates are to be recommended by village heads and town chiefs in each election district in the various provinces, as well as by the hamlet chiefs in municipalities.

(2) Each candidate must be at least twenty-five years of age, of good repute, and a resident in his election district.

(3) The number of candidates selected in each election district is to be ten times the number of delegates designated for that area. The lists of these candidates will be submitted to the National Government, which will examine into the qualifications of candidates and reduce the number to three times the required number of delegates. Out of these the citizen voters will choose the delegates to attend the Congress.

(4) Every Chinese male over twenty years of age, duly registered and sworn as a loyal citizen, may cast one vote for a candidate.

The number of delegates actually to attend the Assembly has been fixed at 1200. Of these 665 are to be elected as outlined above, and 380 are to be chosen from professional groups such as doctors, lawyers, newspaper men, and so on. Members of agricultural, industrial, and commercial guilds are to be included among the "professional groups." In addition, 155 delegates are to be chosen "specially," that is, from the Army, Navy and Air forces; from the four lost Manchurian provinces; from Mongolia and Tibet; and from the Chinese residing overseas.

Delegates to the Assembly are to be charged with the extremely important duty of bringing to a close the period of political tutelage; discussing and adopting a permanent constitution; and inaugurating a constitutional form of government. (Note: A copy of the draft of China's proposed constitution, as passed on May 1, 1936, by the Legislative Yuan, was submitted in G-2 Report No. 9357).

Hopei and Chahar, in spite of their more or less detached status, are going ahead with plans for electing delegates to the Assembly. It will be interesting to observe whether or not Japan will permit delegates from these provinces to attend.

Reports have recently appeared in the Chinese press that it may not be possible to open the Assembly on scheduled time, owing to the difficulty of selecting delegates from distant parts of China and from among overseas Chinese in time to arrive in Nanking by November 12, 1936. A postponement is considered not at all unlikely.

Beginnings of a Chinese women's suffrage movement are indicated in press reports that various women leaders and organized groups of women in different parts of the country are clamoring for equal suffrage.

13. Income Tax.

A Central News Agency despatch of August 22nd states that detailed regulations governing the imposition of the income tax have been adopted by the Executive Yuan and will be promulgated in a few days.

According to this despatch, beginning October 1, 1936, the date on which the collection of the tax is to begin, only salaries of public functionaries and interest accrued from bank bonds and deposits will be taxed, while other income will not be taxed until next year.

It has been previously announced that the income tax will be collected from foreigners, excepting diplomatic officials; those whose residence in China has been less than one year; and those whose income does not originate in China. Exemption provisions, however, will apply only in the cases of foreigners whose own countries extend similar treatment to Chinese nationals.

The proposed income taxes are very low, and according to press reports China expects to collect only about $5,000,000 Mex. per year from this source. This means that the cost of collection will cut very heavily into the net revenue.

It is easy to envisage the difficulties which China would probably experience in collecting the tax from the Japanese, and it is not unlikely that other nations might take the stand that their nationals should not pay the tax unless it is collected from all foreigners residing in China.

14. Smuggling.

According to press reports, the amount of goods smuggled into China during the past month has decreased to some extent. This is due partially to Chinese efforts to control smuggling by means of prevention stations set up along the Peiping-Liaoning Railway and the principal motor roads into Tientsin and points south in Hopei Province.

The principal cause of the decrease in smuggling, however, is the fact that North China markets are becoming glutted with smuggled goods. If and when smuggled goods are again in demand, smuggling may be expected to resume its former state of activity.

Kerosene has been added to the list of smuggled items. The Chinese press reports that five thousand cases of this article were recently stored in a Tientsin godown. Local officials of the Standard Oil Company state that smuggled kerosene is interfering with the sale of the tax-paid product.

As far as is known, the Japanese have shown no disposition to extend effective co-operation in controlling smuggling, and any decrease in this activity may be ascribed principally to economic causes.

15. Inauguration of Through Traffic on Southern Section of Canton-Hankow Railway.

Through traffic on the southern section, from Canton to Hengchow (Hunan), of the Yueh-Han (Canton-Hankow) Railway was formally inaugurated on August 21st.

Opening of the entire line to regular traffic is scheduled for October 10, 1936, but press reports indicate that the opening may have to be postponed because of recent washouts between Hengchow and Hankow.

Chinese merchants in Shanghai are said to be worried for fear opening of the Yueh-Han Railway will adversely affect shipping interests of the port.

16. Revival of Western Banner Dispute.

Last fall a split occurred among the princes of the Mongolian Political Council which at that time had its headquarters at Pailingmiao (see G-2 Report No. 9201, item 6). As a result of this split, Shih Wang, or Dorlchi as he is known to the Mongols, Chief of the West Oriat Banner of the Olanchab League of West Suiyuan, with the backing of Fu Tso-yi, Chairman of Suiyuan, set up a small Political Council of his own at a place not far from Paotow, western terminus of the Ping-Sui Railway.

Reuter reports that enemies of Shih Wang, directed by four nationals of "a certain country" (Japan) have recently attacked Shih Wang and driven him from his palace. Shih Wang has fled to Paotow and appealed to his backer, Fu Tso-yi, for assistance.

The incident is of relatively small importance except that it may indicate a Japanese attempt to create a diversion in Fu Tso-yi's rear while he is occupied with the defense of eastern Suiyuan.

17. Attack on Members of British Embassy Guard.

Around midnight on the evening of August 24, 1936, three soldiers of the British Embassy Guard, while riding in rickshaws near the Peking Hotel on the street just north of the Legation Quarter, were fired upon from an automobile which bore no license number and was driven rapidly away immediately after the firing. Seven shots were fired at almost point blank range, but none of the soldiers was injured. One rickshaw puller was shot in the leg.

The British Military Attache and the Commander of the British Embassy Guard both state positively that the men fired upon have no idea as to the identity or nationality of the persons responsible for the murderous attack.

A foreign newspaper correspondent asked General Matsumuro, head of the Special Affairs Section of the Japanese North China Garrison, if he thought the attack could have been the act of disorderly or misguided Japanese, possibly actuated by motives of revenge for the alleged murder last May by British soldiers of a Japanese named Sasaki employed by the Manchoukuo Army (see G-2 Report No. 9439, item 3). General Matsumuro is reported to have replied that he was sure no Japanese was involved for two reasons; first, that Japanese would not have bungled the job, and second, that no Japanese would have made an attack in such a cowardly manner.

In spite of the declaration that the soldiers had no idea as to who attacked them, it is believed that the British Embassy is considerably perturbed over the possibility that Japanese were involved in the incident.

For and in the absence of the Military Attache:

David D. Barrett
David D. Barrett
Captain, Infantry
Assistant Military Attache

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COMMENTS ON CURRENT EVENTS

August 29-September 11, 1936

RECEIVED G/2 W. D. OCT 6 1936

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2. Japanese Murdered in Kwangtung
3. Mr. Wang Ke-min Comes North
4. Smuggling
5. Economic Developments in North China
6. A New Dalai Lama?
7. Border Incidents
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1. The Chengtu Affair.

The final outcome of the unfortunate incident at Chengtu, Szechwan, on August 24th, when a rioting mob killed two Japanese newspaper men and injured two others (No. 9458, item 5), is difficult to predict at this time, but the possibility of serious consequences for the Chinese are easily envisaged.

According to "Domei", the terms on which Japan proposes to settle the case were sent to Mr. Kawagoe, the Japanese Ambassador, in Shanghai on the evening of September 5th. On September 8th, Mr. Y. Suma, Japanese Consul General in Nanking, after having been summoned to Shanghai for a conference with Mr. Kawagoe, held a long interview in Nanking with General Chang Chun, the Chinese Minister of Foreign Affairs. It was the general impression that negotiations for settlement of the incident were begun at this meeting, but next day, according to a despatch from the American Embassy in Nanking, Mr. Suma stated to a foreign newspaper correspondent that while he had talked over the matter with General Chang in a general way, he had offered no demands or proposals and in fact the Japanese Government had not yet formulated its demands.

Reports are now current that Mr. Kawagoe will handle the negotiations himself, but when he will go to Nanking is not known.

Whatever settlement the Japanese Government may eventually exact in this affair, it has thus far preserved an attitude of commendable calmness. The whole matter has been handled through the usual diplomatic channels by the Foreign Office, and while it has not been possible to keep the fire eaters of the Ministries of War and Navy entirely out of the picture, these factions have at least refrained from sending their own representatives to the scene of the occurrence to investigate, report, or possibly take stronger action.

On the 28th of August the Japanese Foreign Office expressed the hope that the affair could be settled diplomatically and that no steps would be taken until a full report had been received from Mr. Matsumura, Third Secretary of the Japanese Embassy in Shanghai, who had been sent to Chengtu to investigate the incident on the ground.

It was of course not to be expected that the Army and Navy would refrain from expressing their views on the matter. On August 31st, Major General Isogai, Director of the Tokyo Military Affairs Bureau, interviewed the Japanese Vice-Minister of Foreign Affairs and stated that it was the view of the Army that as a result of the Chengtu incident, the Kuomintang Party should be dissolved by the Chinese Government; failing which Nanking should give its written consent for the Japanese Army to settle by armed force all issues directly caused by the Kuomintang. A more drastic demand would be hard to conceive.

The Navy reacted to the incident on September first by cancelling the proposed southward cruise of the Third Squadron, then at Shanghai. According to Japanese press reports the Navy demanded: (1) That the incident be settled as a part of the entire adjustment of Sino-Japanese relations; (2) the eradication of anti-Japanese activities of all sorts; (3) the dissolution of the Kuomintang; (4) the recognition of Mr. Hirota's "three principles" for the settlement of Sino-Japanese relations.

According to press reports, a preliminary draft of the demands to be made on China to compensate for the incident was made on September 1st at a meeting in Tokyo of representatives of the State, War and Navy Ministries. After this meeting wild rumors were in circulation concerning the demands agreed upon by the three ministries. Reuter claimed to have "reliably" learned them as follows:

1. The Nanking Government thoroughly to control anti-Japanese movements to prevent similar incidents in the future.
2. The revision of anti-Japanese school-books and the extermination of anti-Japanese education.
3. The prohibition of anti-Japanese gatherings and the dissolution of anti-Japanese organizations.
4. The Nanking Government to assume responsibility for the anti-Japanese activities of all Kuomintang branches.
5. The removal of all action blocking the reopening of the Japanese Consulate-General in Chengtu.
6. A formal apology by the Nanking Government.
7. The punishment of the guilty and of those responsible for the incident.
8. Indemnification for loss and injury to the sufferers.

On the 5th of September the Japanese press stated that the Foreign Office had decided not to wait for the reports of its investigator in Chengtu, and had issued instructions to Mr. Kawagoe for the settlement of the case. In view of Mr. Suma's declaration on September 8th that no Japanese demands have been formulated, it would appear that either he or the press agencies have not been correct in their statements.

As was to be expected, most of the Japanese press at home and in China has raised a great outcry over the Chengtu incident. The Tokyo "Kokumin" went so far as to advocate the establishment of a Japanese military garrison in Chengtu to protect the Japanese consulate to be established there. Other newspapers as well as a number of associations of Japanese citizens in China have been loud in their demands for reprisals for the shedding of Japanese blood.

A note of moderation, however, was sounded by the Tokyo "Jiji" which urged both sides to assume an attitude of moderation and to refrain from propaganda which would serve only to make a just solution of the case more difficult.

The attitude of the Chinese Government in this affair has been extremely conciliatory. On the 26th of August a special edict was issued by the Central Government emphasizing the necessity of maintaining friendly relations with foreign powers and calling attention to the Chengtu incident as an affair entirely contrary to the wishes of the Nanking Government.

Formal expression of regret concerning the incident was conveyed on September 2nd by Mr. Hsu Shih-yung, the Chinese Ambassador to Japan, to Mr. Hachiro Hirota, the Japanese Minister of Foreign Affairs.

2. Japanese Murdered in Kwangtung.

As if the Chinese Government did not already have enough grief on its hands in connection with the Chengtu incident, now comes the report from Pakhoi in southern Kwangtung, that the sole Japanese resident of the place was beaten to death by a mob on September 3rd. The notoriously anti-Japanese 19th Route Army from Kwangsi recently occupied Pakhoi and elements of this organization are reported to have perpetrated the murder.

According to Reuter, Japanese warships are on their way to the scene of the incident, and the Chinese Government is reported to have sent emissaries to both Pakhoi and Nanning, capital of Kwangsi, to try to arrange for a quick withdrawal of the 19th Route Army in order to avoid possible clashes with the Japanese Navy.

The affair has all the earmarks of an incident created especially by the 19th Route Army, which is known to have opposed the recent Kwangsi settlement, to embarrass the Chinese Central Government.

General Chang Chun, the Minister for Foreign Affairs, has already expressed formal regret for the incident to Mr. Suma, Japanese Consul General in Nanking.

The Chengtu and Pakhoi affairs offer Japan a glorious opportunity to demand almost anything of China. There is a bare possibility, however, that these unfortunate incidents may serve to bring home to some wiser heads in Japan the conviction that perhaps Japan's treatment of China has aroused resentment to a point where it cannot be curbed, no matter how sincerely the Chinese Government may attempt to do so.

The southern Chinese have long been noted for liability to acts of violence and further incidents involving danger to Japanese subjects are likely to occur. And just what Japan can do about it, outside of taking over all of China, is difficult to see.

3. Mr. Wang Ke-min Comes North.

Mr. Wang Ke-min, recently appointed Chairman of the Economic Committee of the Hopei-Chahar Political Council, who has been tarrying in Shanghai for some time apparently trying to make up his mind whether or not to accept his appointment, finally got under way for the North on September 1st. Previous to his departure he called on Mr. Kawagoe, the Japanese Ambassador in Shanghai, and according to Reuter exchanged views with him concerning Sino-Japanese economic cooperation in North China.

Proceeding first to Dairen, Mr. Wang called on General Itagaki, Chief of Staff of the Kuantung Army. As previously noted in Report No. 9444, item 7, Mr. Wang was supposed to be persona grata to the Japanese at the time of his appointment. After his visit to General Itagaki, however, reports were current in Chinese circles that both the Kuantung Army and the North China Garrison were opposed to him. Just what could have caused this change in the Japanese attitude is not understood.

Visible evidence of opposition in some Japanese quarter to Mr. Wang was afforded on September 8th when he arrived in Tientsin from Dairen. Very few Chinese officials were waiting on the Bund to greet him, but a group of a hundred or so Chinese, styling themselves representatives of various organizations in North China, were on hand to try to convince him that he was not welcome. Members of the group, all of whom carried small flags bearing anti-Wang slogans, boarded the ship and insisted on interviewing him for the purpose, so the Chinese press stated, of putting certain questions concerning his purpose in coming to North China. Mr. Wang refused an interview, and later made his way to his private residence in the Tientsin British Concession.

The demonstration against Mr. Wang is believed beyond question to have been staged by either the Kuantung Army or the Tientsin Japanese Garrison - possibly by both. Latest reports from Chinese circles state, however, that the former organization is not against him, and that the opposition comes from the Tientsin Garrison. The "Eastern Asia Evening News," a Tientsin Japanese-controlled sheet published in Chinese, devoted considerable space to an exaggerated account of the demonstration, playing it up as a spontaneous outburst of ill feeling on the part of the Chinese people against Mr. Wang.

General Sung Che-yuan, Chairman of the Hopei-Chahar Political Council, went to Tientsin on the 10th. His purpose, according to the Chinese press, is to visit his mother, but he will probably seize the opportunity to call on Mr. Wang and discuss the situation in North China. General Sung and the 29th Army have always been rather indifferent to Mr. Wang's assumption of office, probably because of fears lest the Economic Committee of the Hopei-Chahar Political Council might eventually assume too great an importance in North China affairs.

According to press reports, Mr. Wang stated on the 9th that while he intended to visit Peiping, he would not accept the post of Chairman of the Economic Committee. With the Japanese North China Garrison and possibly the Kuantung Army against him, and Sung Che-yuan none too friendly, it is believed that he has probably decided to keep off the stage in North China, for the present at least.

4. Smuggling.

The latest important development in the smuggling situation has been the establishment of the "Hopei-Chahar Inspection Tax Bureau" for the purpose of dealing with smuggled goods. The Tientsin office of this organ has been formally established, and other branches are expected to open throughout Hopei and Chahar in the immediate future.

According to the officials in charge, the purpose of the Inspectorate is to register firms dealing in smuggled goods and to inspect all such goods now in storage, as well as those which may be imported in the future. The joker of course is the "inspection fee," which simply amounts to a tax on smuggled goods. The amount of the tax has not yet been formally announced, but it is believed it will be one-eighth of the regular customs duties. After paying the "inspection fee" the smuggled goods may be shipped anywhere in Hopei or Chahar, but are subject to seizure by the Chinese Customs outside of these provinces. Collection of the new tax is expected to be initiated throughout Hopei and Chahar at once.

This body blow to legitimate business and the integrity of the Chinese Customs Administration in North China is stated in Chinese circles to be an arrangement forced on Sung Che-yuan, Chairman of the Hopei-Chahar Political Council, by the Japanese who have long been agitating for a decrease in Chinese import tariffs. Unable to secure lowering of customs duties through Nanking, the Japanese are said to have put pressure on Sung to seize the Customs service in the provinces under his control. Unwilling to break with Nanking by taking such a drastic step and yet anxious to placate the Japanese, Sung is said to have hit upon the device of levying a special tax on smuggled goods. By lumping all Japanese merchandise under the category of smuggled goods, it would then be possible in effect to grant preferential tariffs to Japan. At the same time the special tax would increase Sung's revenues and cut into those of the East Hopei Autonomous Government, as it would no longer be necessary to pass smuggled merchandise through the area controlled by this regime.

North China officials attempt to justify the new tax by describing it as merely a temporary expedient, pending the final settlement of the smuggling issue, by which the huge amounts of smuggled goods now in storage in Tientsin can be released and the price of these goods forced up to something near that of merchandise which has paid regular customs duties. According to Chinese press reports, over 20 firms dealing in smuggled goods in Tientsin have already registered with the new Inspectorate. Large quantities of smuggled goods are expected to begin to move at once. To mention a specific item, 200,000 bags of sugar are said to be ready to be thrown on the market.

Mr. H. H.Kung, Minister of Finance, is reported to have pointed out to the Hopei-Chahar authorities the dangers of the new Inspectorate. Just what Nanking can do about the matter, however, is difficult to see.

Smuggling, which died down somewhat in August, may now be expected to increase, at least as long as the smuggled goods can be sold at a profit.

5. Economic Developments in North China.

While there appears to be no overwhelming rush on the part of Japanese capitalists to invest money in North China, signs that the Japanese government is interested in the economic development of this area are not lacking.

Mr. Kazue Kuwajima, Director of the Bureau of East Asiatic Affairs of the Japanese Foreign Office, in a recent statement to the press urged the investment of Japanese capital in North China. He is reported to have recommended the forming of a huge development syndicate to develop the natural resources of China so that Japanese industries would always be assured of a plentiful supply of raw materials.

The China Central News Agency reports that Japan intends to establish a Commercial Attache's office in the Tientsin Consulate General, the post of Commercial Attache to be filled by Mr. Toru Haguwara, the third secretary of the Japanese Embassy in Shanghai.

The Japanese Ministry of Foreign Affairs has recently purchased a tract of land near Nankai University, outside of Tientsin, on which to erect an agricultural experiment station. According to press reports the station is being established to assist the farmers by technical aids and scientific direction in the improvement of agricultural products. Similar stations are to be built in Tsinan and other points in North China, and special attention is to be paid to increasing the cotton crop.

A Sino-Japanese Electric Company recently organized in Tientsin has approached the Hsin Chung Company, a branch of the South Manchuria Railway, for a loan of $4,000,000 Mex. to be used in the development of electrical enterprises in Tientsin. Press reports state that the management of the company is to be in Chinese hands, but the Japanese are to supply the money and technical assistance. The Hsin Chung Company has recently been mentioned in the press as about to finance the construction of the Tsangchow-Shihchiachuang Railway (see comment in last Report No. 9456, item No. 5).

The question of exportation of Changlu salt is reported settled. According to an agreement said to have been signed by a Chinese salt company and a Japanese buying agency jointly organized by the Mitsubishi and Iwai Companies, 70,000 tons are to be exported this year, shipments to begin the middle of this month. The salt is to be sold at $2.60 per ton, and an export tax of $1.00 per ton is to be paid to the Chinese authorities.

The Belgian interests in the large glass factory at Chinwangtao have recently been sold to a Japanese firm, according to a Tientsin press report which further states that one half the shares of the company are still held by Chinese.

The Chinese press reports that the Peiyang Navigation Company, one of the three Chinese shipping companies in Tientsin, has recently decided to sell out to the Japanese controlled Yung Yuan Company of Dairen. The company operates five small steamers between Tientsin and Yingkow. Japanese competition is said to have made the company lose money.

One hundred members of the Federated Industrialists Association of Osaka are to visit Tientsin in September to investigate economic conditions in North China, according to a Japanese press despatch. They are said to be bringing with them a purse of ten thousand yen to be spent in entertaining the Kuantung Army and the Japanese North China garrison. This should be good news for the Japanese Army.

6. A New Dalai Lama?

The Panchan Lama, who has been reported going to Tibet at various times for some months past, has now reached the border of Kokonor and Tibet, according to a Reuter despatch, which further states that he will await the arrival of a special escort before proceeding further.

Another Reuter despatch of August 31st from Simla, in India, quotes "an unusually well informed traveller" recently returned from Tibet as authority for a report that the reincarnated Dalai Lama has been found, but his whereabouts is being kept secret. According to the Central News of September 2nd, no announcement of the reincarnation has yet reached Nanking and the report is not considered correct. Similar reports were circulated some time ago that the new Dalai had been found, but this latest despatch would make it assured that his reincarnation is still uncertain.

Inasmuch as the Chinese Government hopes to secure some measure of control in Tibet if the Panchan Lama returns there, it would seem that if the reincarnated Dalai is going to be found, the present moment would be a propitious one, as the Dalai is recognized as the temporal head of the Buddhist religion, while the Panchan is recognized as the spiritual leader. Thus a new Dalai in Lhassa would greatly reduce any chances that the Panchan might have of securing real power in Tibet.

7. Border Incidents.

7. After having died down for a time, there has recently been a recrudescence of "incidents" on the Soviet-Manchoukuo border. While the incidents have called forth the usual protests from both sides, with hints of dire consequences to follow, they are believed to be of small importance and are mentioned merely for the sake of record.

Tass reports from Khabarovsk that during August there were numerous violations of Soviet territory by Japanese airplanes flying from Manchoukuo.

Soviet authorities claim that on August 26th a frontier guard was fired upon by Japanese and Manchoukuo troops while watering horses in the Wushakow River near Tungning, south of Suifenho. According to the Soviets, the fire was not returned.

The Japanese version of this incident was that a Soviet cavalry patrol tried to penetrate into Manchoukuo territory near Tungning, and after the patrol had been duly challenged and refused to halt, it was fired upon. According to the Japanese, the fire was returned and a Manchoukuoan was fatally wounded.

Both sides protested this incident and the score seems about even. When Mr. Satoh, the Japanese Chargé d'Affaires in Moscow, presented the Japanese protest to the Commissary for Foreign Affairs, it was pointed out by Soviet officials that such incidents could probably be handled very nicely by a Soviet-Japanese-Manchoukuo border commission, to which the Japanese had agreed last February. That the commission had not been established was the fault of Japan.

8. Communications.

Details for the construction of the proposed Tsangchow-Shihchiachuang Railroad have not yet been decided upon, according to the Central News. A recent Japanese despatch states that it has been decided to make Tientsin the eastern terminus of the line instead of Tsangchow.

Judging from the difficulties apparently being encountered in getting the project under way, it will be some time before construction is actually begun.

Beginning of construction of the Hunan-Kweichow Railway is reported by the Central News. This line is to link Chuchow, the crossing point of the Canton-Hankow and Chekiang-Kiangsi Railways with Kweiyang, capital of Kweichow. The project is a most ambitious one, involving the construction of over 1000 kilometers of railway line, the boring of twenty tunnels, and building of several large bridges. The estimated cost is $15,000,000 Mex.

Through traffic on the Yueh-Han (Canton-Hankow) Railway was inaugurated on September 1st. The first train made the run from Canton to Wuchang in forty-four and one-half hours. The first class fare between Hankow and Canton is $36.00, second $24.00, third $12.00. New coaches for the line are expected from England before October 10th, the date on which the formal opening ceremonies are scheduled to take place.

Radio telephone service between Hankow and Shanghai was opened on September first.

For and in the absence of the Military Attache:

David D. Barrett
David D. Barrett
Captain, Infantry
Assistant Military Attache

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OFFICE CHIEF OF STAFF
MIL. INTEL. DIV.
OCT 22 1936
WAR DEPARTMENT

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COMMENTS ON CURRENT EVENTS.

September 12 to 26, 1936.

RECEIVED G/2 W. D. OCT 21 193

1. Incidents.
2. Liquidation of Kwangsi Situation.
3. North China.
4. Panchen Lama.
5. Chiang Kai-shek's Birthday Airplanes.
6. Diplomats.

1. Incidents:

The recent outbreak of anti-Japanese incidents is disquieting, involving as it does the possibility of precipitating a new crisis in Sino-Japanese relations, which had been quiet for some time past. Japan certainly will not ignore the incidents, but just what action she will take is difficult to predict. That the Japanese will present some demands seems a foregone conclusion. Hitherto the Chinese have always supinely complied with such demands, and will probably do so in this case. Should China, however, adopt a firmer attitude than she has in the past, Japan would probably be faced with the necessity of applying pressure by force of arms, unless she would be willing to accept a loss of face.

✓ Because of her large garrison in North China, Japan is certainly in a position to apply military pressure, in North China at least, but recent developments make it appear that the present may not be a particularly auspicious time for such action. The question of whether or not Japan would be willing to undertake further military aggression in China is a complicated one, affected by a number of considerations, the most apparent of which is that of finances. The Army of course cares nothing about money, but there is a possibility that some civil officials in Japan who are concerned over the precarious condition of the national finances may be able to exert enough influence to curb the fire eaters of the Army and Navy.

From a military viewpoint, moreover, there is the possibility that even the Army may consider it has advanced far enough in China for the present. If the Army believes that its left flank would be secure in the event of a war with Russia, it may prefer not to detach from the Manchukuo forces the additional troops necessary for military operations in China, as this might weaken the front against Russia.

At any rate, it is believed that Sino-Japanese relations have reached the stage of another show-down. Japan may be forced to swing the mailed fist again, or to adopt a milder policy which may possibly hearten the Chinese to show a little resistance. If China is ever going to make a stand, now would appear to be the time to do it, but that she will do so seems more than can be hoped for.

Coming down to concrete facts, the status of the incidents now pending settlement and those which have occurred since the last report are summed up below :

From M/A, China. Report No. 9465. September 26, 1936.

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(1) Chengtu: Mr. Kawagoe went to Nanking on September 13th and has since held two conferences with General Chang Chun, the Chinese Minister of Foreign Affairs. It is supposed that he has presented the Japanese conditions for the settlement of the Chengtu and Pakhoi affairs (see No. 9461, Item 2). The nature of these conditions, if any were presented, is unknown. A third meeting between Mr. Kawagoe and General Chang is scheduled for the twenty-third. It may be that Mr. Kawagoe has received additional instructions from his government because of the Hankow incident, described below.

(2) Pakhoi: As noted in the last report, one Nakano, the only Japanese resident of Pakhoi, was murdered on September third. The recently reconstituted 19th Route Army is alleged to have been responsible for the murder.

The 19th Route Army, brought into the limelight by this incident, is a unit which has had considerable world-wide advertising. The organization originally hailed from Kwangtung, and was sent to Kiangsu in 1931 to garrison the Nanking-Shanghai Railway when the Cantonese were participating in the Nanking Government of December 1931 - January 1932. In January and February of 1932, it bore the brunt of the fighting against the Japanese in the so-called Shanghai war, and at the same time acquired a deep-seated grudge against Chiang Kai-shek for his alleged failure to support them in their struggle against the foreign invader. After the Japanese success in Shanghai, the 19th Route Army was transferred to Fukien, where, in 1933, it became the major element in a revolt led by Ts'ai T'ing-k'ai, Ch'en Ming-shu, Li Chai-sum, and Chiang Kwang-nai. Chiang Kai-shek had little trouble in suppressing the rebellion, after which most of the 19th Route Army was incorporated into the 7th Route Army and sent to serve in Honan. The leaders of the revolt fled abroad, and the remnants of the force not accepted for the 7th Route Army were disbanded.

In the spring of 1936, Ch'en Chi-t'ang and Li Tsung-jen attempted to capitalize on the reputation of the 19th Route Army by reconstituting it under its former commanders, and Ts'ai T'ing-k'ai, Li Chai-sum, and Chiang Kwang-nai were reported in Hongkong en route to Canton to join the southwest rebellion. They smelled a rat, however, and delayed at Hongkong until the defection of Yu Han-mou had definitely upset Ch'en Chi-tang. Li Tsung-jen and Pai Ch'ung-hsi, however, succeeded in inducing them to join with the Kwangsi clique, and made a particular point in their negotiations with Chiang Kai-shek of a pardon for Li Chai-sum and Ch'en Ming-shu.

While negotiations were going on, the 19th Route Army was reconstituted in Kwangsi, but just as the entire situation seemed about to approach a solution, Ts'ai T'ing-k'ai invaded Kwangtung, seized Pakhoi, and shouted loudly that Japan was still the irreconcilable enemy of China. Then came the murder of Nakano, and when Japanese investigators proceeded to Pakhoi on warships, the 19th Route Army refused to allow them to land. Even the Chinese investigators ordered to the scene were not permitted to go ashore.

The situation at this point seemed very threatening. Chiang Kai-shek having agreed, in the settlement of the Kwangsi affair, to the reconstitution of the 19th Route Army, the Pakhoi incident became his baby, and his extreme leniency in attempting to settle the southwest revolt without civil war seemed about to be rewarded only with the prospect of a serious entanglement with Japan. Just when things looked worst, however, Ts'ai T'ing-k'ai left his command and went to Hongkong, Li Tsung-jen assumed control of the 19th Route Army, and ordered its withdrawal from Pakhoi. It is a safe guess that Ts'ai T'ing-k'ai left Kwangtung with his palm well greased. Thus the 19th Route Army disappears as a unit, to be merged with the 5th Route Army with station in Kwangsi, and the last threat to the final peaceful solution of the southwest rebellion is averted, for the time being at least.

After being ordered out of Pakhoi, the 19th Route Army apparently took its time about leaving that port. It appears that either only a portion of the troops were evasuated or that some may have left and then returned. On the 22nd of September, however, Reuter reported that the unit was finally out of Pakhoi, the place being taken over by the 159th Kwangtung Division. The Japanese investigators are reported to have gone ashore and the situation has eased greatly.

It now remains to be seen what Japan will demand in return for the murder of Nakano. The latter, incidentally, appears to have been an entirely harmless individual who had lived for over twenty years in Pakhoi, had a Chinese wife, spoke the local dialect like a native and was to all intents and purposes a Chinese.

(3) __Hankow__: A Japanese consular policeman named Niwajiro Yoshioka was shot to death in Hankow by an unknown person, allegedly a Chinese, on September 19th. At the time he was shot Yoshioka was on duty in one of the streets of the Japanese Concession. The murderer has not yet been apprehended, although several suspects have been arrested.

Immediately after the incident a state of emergency was declared in the Japanese Concession and blue jackets were landed from Japanese war vessels in the harbor. The landing parties were later withdrawn.

Reuter reported from Tokyo under date of ~~the~~ September 21st that the Navy Ministry had obtained imperial sanction to rush additional landing party reinforcements to Hankow for the protection of lives and property, these reinforcements to remain permanently in the Hankow Japanese Concession. The reinforcements are reported to have left Shanghai on the 21st.

Chinese officials have expressed regret over the incident and have offered to cooperate in every way with the Japanese efforts to apprehend the culprit.

Japanese opinion is reported as highly inflamed over the incident and there is the usual talk of stringent demands formulated by the Navy.

(4) __Fengtai__: A tempest in a tea pot, if ever there was one, has resulted in another step in Japanese encroachment in North China, namely the removal of Chinese troops from Fengtai. There have been two companies of the Chinese 37th Division, 29th Army, stationed in Fengtai. On the 18th of September one of these companies became involved in some kind of an incident with the Japanese troops stationed in the city. Just what happened is not exactly known. Japanese reports say a Chinese sentry made an insulting gesture toward a Japanese officer; while the Chinese claim that a Japanese officer rode his horse into a detachment of Chinese troops. A foreign report states that detachments of Chinese and Japanese troops, passing in a narrow street, had some kind of a clash. In any event, the incident was so trivial as to deserve no notice but for its result.

After the "incident" the Japanese troops surrounded the Chinese barracks and forced the company occupying them to evacuate. Prior to the evacuation the Japanese and Chinese troops lined up facing each other and there was some kind of an exchange of courtesies. The Japanese claim an apology was made, the Chinese say not.

An American newspaper correspondent who visited Fengtai on the 22nd reports that the two companies of the 37th Division, 29th Army, formerly in Fengtai, have been withdrawn to a village near Changsintien, and that the Chinese barracks in Fengtai itself are now unoccupied. Two Chinese companies of the 39th Division are now reported stationed a quarter of a mile outside of Fengtai and are said to be erecting defense works around their barracks. That they will be allowed to remain there long seems unlikely.

The 57th Division is said to be one of the most anti-Japanese of the 29th Army.

On the day of the incident, Mr. Frank Smothers, an American newspaper correspondent, who had gone to Fengtai to report the affair, and his wife were roughly handled by Japanese gendarmes who refused to look at Mr. Smother's identification card. Mr. and Mrs. Smothers were afterwards detained for about forty-five minutes in the office of the Japanese gendarmes at the Fengtai Railway Station.

Two other American correspondents who went to Fengtai the same day were directed by Japanese gendarmes to return to Peiping. This they refused to do, but they were not allowed to approach near to the scene of the ceremony which took place at the time the Chinese troops evacuated their barracks. Japanese press correspondents, however, were allowed to circulate without let or hindrance and to take such photographs as they desired.

The American Embassy has handed the Japanese Embassy a statement of the rough treatment accorded Mr. and Mrs. Smothers at the hands of Japanese gendarmes in Fengtai.

(5) Swatow: According to the Chinese press, a bomb, which had failed to explode, was found on September 17th outside the kitchen of a Japanese firm in Swatow. The firm is said to have been suspected of dealing in smuggled goods.

The Japanese consul in Swatow is reported to have lodged a vigorous protest with the Chinese authorities, claiming that the bomb was placed on the Japanese premises by a Chinese and that this action should have been prevented by the local police.

The Chinese authorities are said to be making a thorough investigation and meanwhile all is reported quiet in Swatow.

(6) Shanghai: One Japanese blue-jacket was shot dead and two were wounded in the Hongkew District in the International Settlement of Shanghai on the night of September 23rd. A Chinese alleged to have been involved in the shooting was arrested and taken to the headquarters of the Japanese landing party. Shortly after the shooting, 100 marines were landed from the Japanese flagship Idzumo to reinforce the permanent landing party and marched into Hongkew with fixed bayonets and wearing steel helmets.

Hongkew and Chapei districts are reported to have been plunged into turmoil as a result of the shooting, which according to eye-witnesses, was the work of four men who opened fire at close range. Japanese marines immediately threw a cordon around the Hongkew district, stopping and searching all passersby.

A Reuter's despatch from Tokyo states that the incident has created a sensation in the Japanese capital. Well informed persons are said to have expressed the opinion that the situation is very grave.

Considerable excitement was caused in the Chapei district of Shanghai on the evening of September 21st by another Sino-Japanese "incident." It is alleged that two pear cores were thrown from a Chinese dance hall at a passing Japanese marine patrol. The Japanese immediately lodged a complaint with the Chinese authorities and Chinese police were rushed to the scene, surrounding the dance hall and detaining the owner for examination. At the same time, traffic on the boundary of the International Settlement was stopped and an investigation of the affair was begun by the Japanese marines.

Chang Chi-luan, editor of the "Ta Kung Pao" (L'Impartial") published in Tientsin and Shanghai, has been acquitted of a charge of having printed in his paper an article tending to create a breach of international good feeling.

It was alleged that he had published a play calculated to offend the Japanese.

Tu Chung-yuan, editor of the New Life Weekly, who was sentenced to serve one year and two months for publishing an article entitled "Gossip About Emperors," which was considered offensive by the Japanese authorities, completed his prison term on September 9 and is being released, according to the Central China Daily News of Shanghai.

2. Liquidation of Kwangsi Situation.

Except for the obstreperous actions of the 19th Route Army in Pakhoi, commented on above, the wind-up of the Kwangsi defection has proceeded without a hitch.

Li Tsung-jen, Pai Chung-hsi, and Huang Hsu-chu were sworn in as Pacification Commissioner of Kwangsi, Member of the Standing Committee of the Military Affairs Commission, and Chairman of the Kwangsi Provincial Administration, respectively, on the 16th of September in Nanning, the ceremony being conducted by General Cheng Chien, Chief of the Board of the General Staff, and Huang Shao-hsiung, Chairman of the Chekiang Provincial Administration.

Li Tsung-jen and Huang Hsu-chu flew to Canton on the 17th where they were given a tremendous ovation on arrival. Li met with Chiang Kai-shek the same evening and again the next day, when Huang Hsu-chu also had an audience with the Generalissimo. The rehabilitation of Kwangsi is said to have been discussed at these meetings. The two principal questions reported as involved in the rehabilitation of Kwangsi are stabilization of the provincial currency and demobilization of the Kwangsi militia, 300,000 of which are said to still be under arms. In other words the principal problems are money and soldiers, both of which have troubled China, and other countries, for many years.

Pai Chung-hsi did not go to Canton to attend the love feast, giving as his excuse the pressure of urgent business. He is reported, however, to have stated that as soon as the urgent questions of demobilization have been settled, he will meet with Chiang Kai-shek, if not in Canton at some other place. Pai is said to want to go abroad, presumably at Central Government expense, in order to study military conditions in Europe and America, and thus fit himself "for further service to his country."

The most important news item concerning the Kwangsi settlement is that the monthly expenses of the 5th Route Army, into which the Kwangsi provincial troops and the 19th Route Army are to be incorporated, have been fixed at $3,000,000, of which sum Kwangsi is to raise $1,000,000 and the Central Government is to supply the rest. Two million dollars a month will be an excellent guarantee of peace in Kwangsi province.

Li Tsung-jen is reported to have decided to move his Pacification Commissioner Headquarters to Kweilin, in northwest Kwangsi, so as to be in closer touch with the Central Government. If he moves there he will also be closer under the thumb of Chiang Kai-shek, which suggests the thought that the idea of the move may have been inspired by higher authority.

According to the Central News Agency, all Central Government troops are to be withdrawn from Kwangtung except two divisions to guard the Yueh-Han (Canton-Hankow) Railway.

3. North China:

General Sung Che-yuan, Chairman of the Hopei-Chahar Political Council who went to Tientsin on the 10th of September, allegedly to visit his mother, is still in the port city, and is not expected to return to Peiping until after the first of October. His trip to Tientsin has given rise to the usual crop of rumors that important changes are pending in the Hopei-Chahar government, but no foundation for such reports is apparent. The rumor mongers attach much significance to the fact that when General Itagaki, Chief of Staff of the Kwantung Army, was in Peiping last month, he ignored General Sung completely, which is taken to indicate that the Kwantung Army opposes the present administration in Hopei and Chahar. While it is believed that Sung Che-yuan has not proved to be the complete turn-coat that the Japanese hoped for, still there is no reason to feel that he is to be replaced in North China, for the present at least.

Wang Ke-min, after his chilly reception on the Tientsin Bund on September 8th (see No. 9461, Item 3), has apparently definitely abandoned any idea of assuming the post of Chairman of the Economic Commission of the Hopei-Chahar Political Council. Mr. Wang returned his certificate of appointment to General Sung Che-yuan on September 12th, and while Nanking has not yet relieved him of his appointment, he is to all intents and purposes out of the picture for the time being. Mr. Li Shih-hao and Mr. Chang Hu, both former Ministers of Finance in the Peking government, have been mentioned as possibilities for the position left open by Mr. Wang's withdrawal.

The Hopei-Chahar administration is reported to have abandoned the project of levying a special tax on goods smuggled into these two provinces (see No. 9461, Item 4). An "inspectorate" for this purpose was established and reports were current that collection of the tax had actually begun, but according to latest reports from foreign sources, it has now been decided to use the newly created inspectorate to cooperate with the national Customs authorities in measures to suppress smuggling. The chief function of the inspectorate, according to the reports, will be to check the influx of smuggled firearms, ammunition, and poisonous drugs.

It is understood, however, that within the framework of the Customs administration, other measures are to be employed to dispose of the goods already smuggled into Hopei and Chahar. This is taken to mean that the authorities are prepared to accept less than the full amount of duty as the price of immunity from seizure, but definite information on this point is not yet available.

It is reported that this new arrangement was arrived at after negotiations between Mr. Li Ching-hsien of the Ministry of Finance and General Sung Che-yuan. If the proposed arrangement is put into effect, it will serve to preserve in some degree the integrity of the Customs Administration in North China, but the effect in the end will doubtless be the same, namely preferential treatment of Japanese goods.

Meanwhile smuggling continues rampant with the smuggled goods paying no taxes of any kind. Indicating proportions of the illicit trade, the Central News Agency reports that the following goods were unloaded at the Tientsin East Station on three days from September 11th to 13th: gasoline, 540 cases; sugar 263 sacks; woolen textiles 78 bales; rayon cloth, 56 bales; chemicals 119 cases. These commodities, which had been shipped in from various points in the Demilitarized Zone, are said to have been transported to warehouses in the Japanese Concession, to be shipped later by truck to the interior.

A Chinese Customs authority was recently quoted as saying that the Chinese people, with their present buying power, cannot consume in three years time the smuggled goods now accumulated in Tientsin. Prices of smuggled goods are falling and the trade may eventually be stopped by the law of supply and demand, which is one of the few laws now being regularly enforced in North China. Before the smuggling ceases from economic causes, however, it seems probable that most legitimate business enterprises in North China, whether foreign or Japanese, will have come to ruin.

Indicating the state of legitimate business in Tientsin, this office is reliably informed that the Tientsin branch of the National City Bank has lost money on its operations during the past three months.

The foreign press recently quoted an article from the Tokyo "Japan Advertiser" indicating the extent to which Japanese interests have acquired control of the Chinese cotton spinning and weaving industry. According to the article, of the six cotton mills formerly operating in Tientsin, five have recently been sold to the Japanese, only one small mill now remaining in Chinese hands. The total number of spindles sold to the Japanese is placed at 190,000. The properties are said to have been acquired for around $6,000,000, while the original investments were more than $18,000,000.

Japanese interests are said to control at present 45 mills in China, operating 2,288,176 spindles, exceeding by around 300,000 the total number of spindles operated by Chinese.

Further expansion of Japanese interests in cotton spinning in China is predicted.

Capital for investment in cotton mills in China is said to have been furnished from private sources, without aid from the South Manchurian Railway, which was recently reported as having organized a large subsidiary company for the purpose of developing Chinese industries.

According to a Reuter despatch, Shansi province is about to take advantage of the recently promulgated National Conscription Law (see No. 9460, Item 4) to raise a force of 30,000 men to be employed largely in production and reconstruction activities throughout the province. Term of service is to be for one year.

4. The Panchan Lama:

According to the Central News, the Nanking Government has allotted $500,000 to the Panchan Lama for the expenses of his trip back to Tibet. His Holiness is reported to have reached Yushu in Southern Chinghai, from whence he will proceed into Sikong. It is expected, according to the report, that he will preach the Buddhist faith for some time in Sikong before going to Lhassa.

Mr. Chao Shou-yu, who is to escort the Panchan to Tibet, is reported to have arrived in Sian on September 15th, enroute to Yushu by way of Lanchow.

According to the Shanghai "Nichi Nichi," British authorities in Tibet are opposing the return of the Panchan, as are the eastern Tibetans. It is not improbable that both may fear that a return of the Panchan might presage a reestablishment of Chinese authority in Tibet.

No confirmation has been received of Reuter's recently circulated report of the finding of the reincarnated Dalai Lama (see No. 9461, Item 6).

5. Chiang Kai-shek's Birthday Planes.

According to Chinese press reports, more than $5,584,000 Mex. has been raised in the nation-wide campaign for funds with which to purchase airplanes to be "presented" to Chiang Kai-shek on his 50th Birthday, which falls on October 15th.

Of this sum $732,000 is reported to have been contributed by the Army.

The planes are not actually to be presented to the Generalissimo on his birthday, but are to be purchased later with the money raised in the campaign.

When and where the planes are to be purchased is not known.

6. Diplomats:

Sir Hugh Montgomery Knatchbull-Hugessen, the new British Ambassador to China, presented his credentials to Mr. Lin Sen, Chairman of the National Government, at Nanking on September 23rd.

Sir Hugh arrived in Shanghai on September 16th from Japan where he had been visiting for a short time enroute to his new post.

Interviewed in Shanghai shortly after his arrival, Sir Hugh is quoted by the press as having stated, in commenting on the recently proposed Anglo-Japanese economic cooperation in China, that any measures in this connection affecting China must be agreed to by China herself.

Concerning the Income Tax Law recently promulgated by the Chinese Government, Sir Hugh is reported to have stated that when all foreigners residing in China were placed on an equal footing, British subjects would pay the tax, but that it would not be fair to expect British citizens to pay unless all other foreign nationals did so.

(Note: In this connection the American Embassy has informed the Chinese Foreign Office that American citizens in China will not pay income tax, stating that the law is inapplicable to Americans residing in this country and furthermore that the present regulations are impracticable in that the Chinese Government is without the machinery to enforce them.

The French Embassy has also informed the Foreign Office that French citizens will not pay the tax.

Great Britain, the Netherlands, Czechoslovakia, and Cuba have acknowledged receipt of the income tax regulations, but have as yet presented no official communications on the subject.)

Sir Hugh is reported to have stated that his Government has no intention of recognizing Manchukuo.

The new Ambassador is expected in Peiping on September 26th, but it is expected that he will return to Nanking after a brief stay in the old capital.

Sir Andrew Caldecott, Governor of Hongkong, and Lady Caldecott visited in Canton from September 17th to 19th and were most cordially received by Generalissimo and Madame Chiang Kai-shek, as well as by the local Chinese officials.

Mr. Liu Chung-chieh, the Chinese Minister to Austria, and Mr. Lo Chung-yi, Minister to Denmark, have both been recalled by the Ministry of Foreign Affairs. Mr. Lo has already left Copenhagen, but the date of Mr. Liu's departure from Europe has not yet been fixed.

Joseph W. Stilwell,

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COMMENTS ON CURRENT EVENTS.

September 27 to October 9, 1936.

RECEIVED G/2 W. D. NOV 3 1936

1. Kweiyang-Yunnanfu Highway.
2. Rumors from the North-West.
3. China's First Ship-building Law.
4. North China Development.
5. China's Debt.
6. Two New Domestic Loans.
7. Lin Sen on National Rejuvenation.
8. Economic Progress in Nanking.
9. Smuggling.
10. Typical Government Reports on Reds.
11. Sung's Consumption Tax.
12. Disposal of Drugs Found in Possession of Japanese.
13. Plans for Honan-Anhwei Railway.
14. "The Southward Advance."
15. Negotiations at Nanking.

1. Kweiyang-Yunnanfu Highway.

The highway from Kweiyang, the capital of Kweichow, to Yunnanfu, capital of Yunnan, has been completed. This line is 600 kilometers long, and with the completion of the Ch'angsha-Kweiyang road, opens rapid communication from the central Yangtse area to one of the remotest of China's provinces. Buses now run from Kweiyang to Yunnanfu in four days, and it is expected that the time will ultimately be cut in two.

2. Rumors from the North-West.

Chang Hsüeh-liang has denied rumors that the North-West was about to declare its independence of China and form an alliance with Soviet Russia, and reaffirmed his loyalty to Nanking, adding that he and his subordinates are willing to serve in the first line of national defense. If he doesn't do it any better than he did when the Japanese ran him out of Manchuria, it would be just as well for China if the North-West did go independent.

3. China's First Ship-building Law.

The Legislative Yuan has approved a law for the encouragement of ship-building.

Five kinds of subsidies, according to the law, will be given by the Government to Chinese shipping merchants for the construction of new vessels, and Chinese shipping trade along coastal and inland waters is expected to increase as a result.

It is stipulated in the law that new vessels are subject to examination by the Ministry of the Navy. Without the approval of the Ministry of Communications no foreign seamen shall be employed by Chinese vessels. Vessels once receiving such subsidies shall not be transferred to foreign ownership within a period of 10 years. Any subsidized shipping concern which leases any of its vessels to foreign interests must first obtain a permit from the Ministry of Communications.

The subsidies will be as follows:-

Tonnage:	Per Ton:
500-1,000	$ 12.00

Tonnage:	Per Ton:
1,000-2,000	$ 16.00
2,000-3,000	$ 20.00
3,000-5,000	$ 24.00
Above 5,000	$ 28.00

In case of reconstructed vessels half of the regular subsidies per ton shall be granted. Ships which are entitled to receive subsidies from the Government are limited to those built in China and by Chinese dockyards.

4. North China Development.

The Central News Agency reports an understanding between the South Manchurian Railway and its subsidiary, the Hsin Chung Company, whereby the latter will increase its capital from 10 million to 150 million and will be charged with full responsibility for the economic development of North China. The company is now to become a joint commercial and governmental enterprise, like the South Manchurian Railway in its early days.

It is not stated where the capital is to come from.

5. China's Debt.

The Executive Yuan announces that a preliminary survey shows China's debt, foreign and domestic, with interest, to be $5,794,655,187 at the end of the 24th fiscal year. This works out at $12.88 per capita, for 450,000,000 people, and should be quite reassuring to the Nanking authorities, in view of records made elsewhere. It should be possible to load up the Lao Pei Hsing, or Old Hundred Names, as the Chinese call themselves, to at least 25 dollars a head before they explode.

6. Two New Domestic Loans.

In view of the above, it is pertinent to note the issue, on October 1, of two new domestic loans aggregating 123 millions, the bulk of which is to be used for the "financial rehabilitation" of Kwangtung province, particularly to make up the discrepancy between the "small money" notes and their metallic reserve in that province. Financial experts could probably determine if that figure represents the cost to the province of the regime of Ch'en Chi-t'ang, the ex-governor who is now living comfortably in Hongkong.

7. Lin Sen on National Rejuvenation.

Mr. Lin Sen, the figure-head president of the Chinese Republic, occasionally makes a speech, although he leaves most public pronouncements of policy to his military adviser, Chiang Kai-shek. Mr. Lin said recently that "national rejuvenation should be carried out with greater prudence in accordance with the concerted policy of the Central Government," and that "the present national unification and the comparative stability of living of the people afford a golden opportunity for rejuvenating the nation providing this is done carefully and prudently."

Mr. Lin's own part in the rejuvenation of the nation is thus done, according to his own advice, with considerable care and prudence.

8. Economic Progress in Nanking.

The Nanking Bureau of Social Welfare has issued a proclamation prohibiting further catching of frogs, on the ground that they are beneficial to the crops. Restaurants and vegetable dealers are also cautioned not to sell frogs. The connection between frogs and vegetables remains somewhat obscure.

9. Smuggling.

Smuggling in the Peiping area is again on the increase. Sugar, artificial silk and gasoline are the favorite articles at present, in spite of the reports from Tientsin that the godowns all over the city are loaded to capacity with such stuff. The proximity to Peiping of Tungchow, capital of the East Hopei regime, makes smuggling here a simple matter, and the attractive prises - gasoline, for instance, being two dollars a tin under the legal article - assure a continuance of the business until the market is saturated.

10. Typical Government Reports on Reds.

1. "Having been driven to the northern and eastern Kansu-Ninghsia-Shensi border, the communist-bandits under Ho Lung, Hsiao Keh, Chu Teh, Mao Tse-tung and Hsu Hsiang-chien have been placed in a most desperate situation, according to Major-General Chang Lien-shen, Chief of Staff to the Headquarters of the Pacification Commissioner for Kansu, in a press interview.

Pressed by Government troops on all sides and surrounded by miles of desert and ranges of barren mountains, the Reds will have either to surrender or to be exterminated in the nearest future, Major-General Chang predicted."

2. "Communist-bandits at Wupaohsien in northern Shensi are now on the verge of extermination as dissension is rapidly spreading in their rank and file, according to military reports from Wupao.

Around 80 bandit chieftains and 2,400 communists at Wupao have during the last few days surrendered to the Government forces and have voluntarily handed over a total of 116 rifles."

These reports, of course, mean nothing.

11. Sung's Consumption Tax.

General Sung's solution for handling smuggled goods, i.e., to put on a so-called "consumption tax" at from one-eighth to one-fourth the legal customs rates, and then release the goods for sale, - has not been very cordially received. As it merely legalizes smuggling for a small price, opposition developed early, and it is very doubtful if anything further will ever be heard of it.

12. Disposal of Drugs Found in Possession of Japanese.

The Foreign Affairs Committee of the Chahar-Hopei Council has decided that in the future opium, drugs, and other contraband articles found in the possession of Japanese or Korean traffickers should be confiscated and destroyed. As in the military profession, planning is more simple than execution. When the Chinese raid a drug joint, they first have to telephone the Japanese consular police to get them to go along. These worthies notify their colleagues at the shop, who promptly remove the evidence, so that when the raid is made the nest is bare, and the Chinese come in for some adverse criticism for stirring up trouble over nothing.

13. Plans for Honan-Anhwei Railway.

Another railroad has appeared on paper, this time a line about 260 kilometers long running east from the Peiping-Hankow line at Hsinyang to Yehchiachi, just over the border in Anhwei. If and when built, it will be in effect the western link in a road, projected some time ago, from Hsinyang to Yehchiachi to Hofei to Wuyi or Pukow on the Tientsin-Pukow line.

Construction expenses have been estimated at 11 million, and it is noteworthy that for raising this amount the Honan provincial government is seeking the approval of the Executive Yuan for an issue of from 15 to 20 million in bonds.

14. "The Southward Advance."

Indications are appearing that Japan's "Southward Advance Policy" is not just imagination. Press reports state that Admiral Kobayashi, the new governor of Formosa, intends to establish agencies of his foreign affairs department in Foochow and Canton, "to foster closer contact with the Japanese consuls in those cities concerning economic and trading activities." Also that "special commissioners" from the governor's headquarters will be appointed to Amoy, Swatow, and Hongkong. Japanese newspapers are to be established in the larger southern Chinese cities, and an air-line from Formosa to Foochow is under consideration.

15. Negotiations at Nanking.

Events all over China are waiting on the outcome of the Sino-Japanese negotiations at Nanking. It is generally felt that, as stated by Mr. Arita, China stands at a "momentous cross-roads" and happenings elsewhere are dwarfed into insignificance by the possible tremendous effect of the decisions that will be made at the capital.

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COMMENTS ON CURRENT EVENTS

October 10--23, 1936

RECEIVED G/2 W. D. NOV 17 1936

1. Straws in the Wind
2. Chengtu-Chungking Railway
3. Kweihua Horse Show
4. Soviet-Manchukuo Border Incidents
5. Relief for Shensi
6. "People's Livelihood" Threatened in Peiping
7. Japanese Population of North China
8. Agreement on Air Traffic
9. Chairman for Hopei-Chahar Economic Council
10. Lungyen Mines
11. Manifesto by Peiping Educators
12. General Tatekawa Arrives
13. S. M. R. Investigating Party
14. Japanese Consular Office for Fengtai
15. No Boycott in Kiangsu
16. Lung-Hai Railway Development
17. The British Credit

1. Straws in the Wind.

1. Press reports indicate the probable acquisition by the Japanese of the Yao Hua Glass Factory in Chinwangtao. This is a Chinese concern which is having financial difficulties.

2. Reuter states that Chiang Kai-shek has sent for Wang Ching-wei, who is now in Europe, and that Wang will probably leave Germany for China about November 7th.

3. Japanese sources state that a military special service organ will soon be organized in Tsingtao by the Japanese authorities in North China.

4. The Central News has a report that the Bank of Chosen is planning to abolish its branches in Manchukuo and center its business in North China. The staffs in Peiping, Tientsin and Tsingtao are to be increased, and a new branch opened in Tungchow or Tangshan.

5. Tangku and Lutai salt is beginning to move to Japan. The first consignment, 6400 tons, has already been shipped, and two further shipments of 5000 and 6000 tons are to leave shortly. This salt goes to factories in Japan for industrial and chemical purposes.

6. Smuggling rows at Tsinanfu continue. On October 18th a gang of some 80 Japanese smugglers entered the office of the Customs Preventive Bureau and demanded the surrender of two carloads of goods seized by the guards in the morning. These ronin beat up all Chinese encountered and ran the railway police out of the building. The Chinese then agreed to turn over the goods to the Japanese Consulate-General.

7. It proves to be as easy to smuggle going out as it is to smuggle coming in. The business has now been extended to running out cotton, linen and furs from Tientsin into the East Hopei zone. On October 18th a convoy of 100 trucks fully loaded left Tientsin for the Demilitarized Zone. Some budding efficiency engineer must have discovered that it did not pay to run one way empty.

8. Chinese officials from the Hopei-Chahar Council are to accompany the Japanese troops during the maneuvers next week, to explain to the inhabitants the nature of the exercises and avoid possible complications.

2. Chengtu-Chungking Railway.

French banking interests are reported to have made a deal with the Szechwan authorities for the construction of the Chengtu-Chungking Railroad, and their representatives are expected to go to Chengtu soon to arrange the details.

3. Kweihua Horse Show.

On October 10th a large crowd turned out at Kweihua for the 5th Annual Horse Show, and General Fu Tso-yi made a speech emphasizing the great importance of improving the breeds of horses. The Japanese seem to prefer trucks.

4. Soviet-Manchukuo Border Incidents.

Clashes continue along the Soviet-Manchukuo border. On October 11th there was a skirmish at Hunchun on the eastern Manchukuo border with about ten casualties among the Manchukuo troops. On the same day another clash occurred at Yangkuanping, near the mouth of the Tumen River, with one Manchukuo soldier wounded. So many of these actions take place that less and less importance is attached to them. Any one of them could be made the excuse for more serious moves, but apparently neither side is anxious to force the issue.

5. Relief for Shensi.

The Ministry of Finance has allotted $3,000 (Mex) for the relief of the population in the bandit ridden districts of North Shensi. Since it will cost about $5,000 to get the $3,000 up there, it is strongly suspected that the Central Government is not vitally concerned about the voters in the Northwest.

6. "People's Livelihood" Threatened in Peiping.

The municipal Nightsoil Affairs Bureau had a narrow escape from being wrecked lately, as a result of new regulations requiring the night-soil gatherers to register, pay a fee, and buy new scoops and tubs from the municipality, at prices higher than those in the open market. It required a force of police to disperse a crowd of 300 of these coolies who attempted to storm the bureau with a petition for relief.

7. Japanese Population of North China.

The influx of Japanese civilians continues. Chinese sources report an increase of 2,000 Japanese in the cities along the Peiping-Mukden Railway during October, and estimate at 20,000 the present number of Japanese households in this area. This latter figure is probably exaggerated, but there is very evidently a steady increase of Japanese civilians in the area.

8. Agreement on Air Traffic.

Sino-Japanese co-operation in North China begins to take on visible form. On October 17th an agreement was reached between General Sung and Mr. Horiuchi, Japanese Consul General in Tientsin, for through air traffic between Manchukuo and Peiping. A company is being organized to handle the traffic, the Hui Tung Co., and the service is expected to include stops at Chinchow and Tientsin. This agreement is another string that ties North China and Manchukuo together.

9. Chairman for Hopei-Chahar Economic Council.

The question of a Chairman for the Hopei-Chahar Economic Council has been solved by the acceptance of Wang Keh-min's resignation and the appointment of Mr. Li Shih-hao, a former Minister of Finance in the Peking Government. So much opposition developed to Wang Keh-min that it was felt better to let him go and substitute the new man. Mr. Li is a native of Chekiang and close to sixty years of age. It is significant that immediately upon Mr. Li's arrival from Shanghai he went to Tientsin to "exchange views" with General Tashiro and Consul General Horiuchi.

10. Lungyen Mines.

The Hopei-Chahar Council has ordered the Lungyen Mining Company to hand over its iron mines at Lungyen to the Economic Committee of the Council, which is to run them as a state enterprise. Under the new mining law of the Central Government, if a mine lies idle more than ten years, it may be taken over by the state.

The mines are located near Hsuanhua on the Peiping-Suiyuan Railway, and were organized by Tsao Ju-lin and Li Shih-hao in 1919, when the Anfu clique was in power, but have not been worked for 15 years.

A director for the mines has already been appointed - Lu Chung-yu, former Chinese Minister to Japan, and a Japanese returned student. Mr. Lu, with Tsao Ju-lin and Chang Tsung-hsiang, was held responsible for China's diplomatic defeat at the Versailles Peace Conference, and dismissed from office by the Peking Government in 1919 as the result of nationwide agitation. Now that the state has taken possession, it will be interesting to see how long it will be before the project turns into a joint Sino-Japanese company.

11. Manifesto by Peiping Educators.

Seventy-two professors of various government and private universities in Peiping have signed and issued a manifesto on October 13th calling on the National Government to resist the Japanese, and laying down minimum conditions for the government to insist upon. These include (1) no loss of territory or sovereignty, (2) open diplomatic negotiations, (3) abrogation of the Tangku Truce, Ho-Umetsu agreement and Shanghai Truce, (4) refusal to permit foreigners to interfere in the internal administration of China or conduct illegal military operations, (5) opposition to puppet regimes, (6) military defense of the border regions, and (7) use of force to prevent smuggling.

The manifesto, in reviewing the present situation, declares the crisis worse than any previous one in Chinese history, and states that "we Chinese are despised by our enemies because we offer no signs of resistance, merely bursting into tears when oppressed. Recollecting the past five years and looking into the future, we fear that the whole of China may be handed over to the Japanese." The signers further state that they are forced to conclude that Chiang Kai-shek's promises of eventual resistance are but empty words.

This show of spunk brought the usual reaction from the Japanese, who served notice on the local authorities that they would have to suppress such obviously anti-Japanese activities. If some of the spirit shown by these professors could permeate the military crowd, China would have nothing to fear, but unfortunately all the evidence points to the continued subservience of the latter to their Japanese masters.

Whether or not as a direct result of this manifesto, on October 14th the Headquarters of the Pacification Commission of Hopei and Chahar, in other words, General Sung Cheh-yuan, issued orders to the authorities of all public and private universities and middle schools in Peiping for the suppression of all student organizations, irrespective of titles. Special attention was given in the order to student self-government bodies, pickets and propaganda corps, ten-people groups, national salvation associations, study groups, literary societies, lecture groups, round table conferences, and moral endeavor associations. The school authorities are to advise the headquarters of the Pacification Commission if any defiance is shown.

The sweeping character of this suppressive measure is evidence of the anxiety in the governor's office over possible outbreaks by the student element.

12. General Tatekawa Arrives.

Lieutenant General Y. Tatekawa, reported to be the next adviser to be appointed to Sung's headquarters, has arrived and is making the usual round of visits on Japanese and Chinese officials. No announcement has been made as to his status, but it is generally understood that he is stated to be a military "adviser" for Sung Cheh-yuan.

13. S. M. R. Investigating Party.

Five mining engineers connected with the South Manchuria Railway Company have been making an inspection tour in the Western Hills, and at Mentoukou (coal mine) and Shihchinshan (iron foundry belonging to the Lungyen Mining Company).

14. Japanese Consular Office for Fengtai.

Chinese sources report Japanese intentions to establish a consular office in Fengtai, and state that a building will be erected if suitable accommodations cannot be found.

15. No Boycott in Kiangsu.

Foodstuff prices in Kiangsu, Anhwei, Shantung and Honan are reported rising rapidly on account of large purchases by "unscrupulous merchants" for export to Japan. Evidently anti-Japanese feeling in that section at least has not reached the point where a good business deal can be passed up to spite the national enemy.

16. Lung-Hai Railway Development.

The Lung-Hai Railway announces plans for the construction next spring of a large machine shop at Sanchiao (just west of Sianfu), for which the Belgian banks have put up $5,000,000. The Lung-Hai is also making a survey for the line which will link up Chengtu in Szechwan with their system.

17. The British Credit.

Details are not yet available on the grant of a British credit of several million pounds sterling to China, to cover the purchase of British goods. It is supposed to be set up under conditions similar to those of the German credit, and will probably be used for the purchase of munitions. The Japanese announce themselves as opposed to any loan to China of a "political nature", a term which could of course be applied to almost any credit.

Joseph W. Stilwell,

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COMMENTS ON CURRENT EVENTS

October 24--November 6, 1936

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1. Sino-Japanese Negotiations
2. Situation in West China
3. Chiang Kai-shek's Birthday
4. Economic Developments
5. Incidents.
6. Japanese Hospitality

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1. Sino-Japanese Negotiations.

A Chinese diplomat well known in the United States once remarked that his countrymen found it very amusing to watch the efforts of foreigners to understand the true inwardness of Chinese affairs. According to him, there are always so many wheels within wheels in any important situation that it is often impossible even for the Chinese themselves to get to the bottom of things, while for a foreigner, no matter how good his Oriental background might be, it was almost an impossibility.

This remark strikes one with particular force in considering the present Sino-Japanese negotiations. Because of the efforts of both sides to keep the public as much as possible in the dark as to the real facts, even the salient features of the discussions are difficult to determine, and as to what is going on behind the scenes, probably only a very few are reliably informed.

It is generally understood that China is willing to accept, in principle at least, all of the Japanese demands as reported four weeks ago except those concerning autonomy of the five northern provinces and a united front against communism. These two demands, if press reports are true, China has consistently refused, and Mr. Suma, Japanese Consul General in Nanking, has made a trip to Japan and back, supposedly for fresh instructions.

The foreign press recently carried a report from Tokyo that Japan would probably modify these two most important demands to the extent of seeking only a "verbal assurance" of an "acceptance in principle." Subsequent despatches, however, state that Japan is unwilling to soften her terms.

The Chinese have been loud in declarations that the demands cannot be accepted, as such a step would be tantamount to a renunciation of China's national sovereignty. Thus the negotiations, on the surface at least, have reached an impasse.

From M/A, China   Report No. 9482   November 6, 1936

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The Chinese Foreign Minister, General Chang Chun, and the Japanese Ambassador, Mr. Kawagoe, have met six times to discuss the negotiations and the seventh meeting has been set for the fourth of November. The Japanese press states that the negotiations have reached "the final stage," implying that the limit of forbearance has almost been reached. It would thus appear that one side or the other must give way, unless the issue is to be decided by force of arms.

The above are the apparent facts in the case. In spite of all the talk on both sides, the possibility should not be overlooked that Chiang Kai-shek and Mr. Kawagoe reached a settlement at the time of their conversations in Nanking. If such is the case, Mr. Suma's recent trip to Japan may have been for the purpose of arranging the final terms of settlement; and Chiang Kai-shek may have called the Northern leaders to Hangchow in order to inform them of the actual state of affairs.

Unless he felt fairly well assured as to the future course of Sino-Japanese relations, it seems strange that Chiang Kai-shek would go to Sian, leaving the most important negotiations in the recent history of China in the hands of his Foreign Minister. It also seems unusual that the Japanese took so little notice of the recent movements of Chinese troops in Honan, Shensi, Kansu, and possibly Shantung, which movements might easily have been construed as hostile to Japan. The Chinese of course took the troop movements to mean that Chiang Kai-shek was determined to defend the line of the Lung-Hai Railway. A glance at the map will show, however, that this line cannot be defended as long as the Japanese can land troops at will on the coast of China. Thus it would seem that Chiang would probably not move troops to an indefensible line unless he knew the line were not likely to be attacked.

To sum up, if these straws in the wind mean that a settlement has already been reached, an estimate of its possible terms is as follows:

(1) Japan to be allowed to continue her present policies in North China, in return for an assurance that she will not attempt a further extension of her influence for the present at least.

(2) Chiang Kai-shek to be allowed to make some big talk and dispose troops along the line of the Lung-Hai Railway as a sop to the Chinese people.

There have been press reports that the Japanese desire Chiang Kai-shek to go to Nanking for another conference with Mr. Kawagoe. Such a meeting might very conceivably be to arrange the final details of a settlement along the lines suggested above.

To assume, on the other hand, that no agreement has been reached and that negotiations are really at an impasse, one is tempted to speculate on the course of future events in China. On the face of things it would appear that Japan must impose her will upon China, if necessary by force of arms, or else suffer a very serious reverse in her entire Asiatic program. To judge from the past, Japan will choose the former alternative.

Further submission to Japan may mean the end of Chiang Kai-shek, but if he goes the Chinese people must look far for a leader who would be willing to face a Japanese war. Certainly Chang Hsueh-liang has not the courage, recent rumors that he is thirsting for Japanese blood to the contrary. If the Young Marshal longs to fight Japan, he missed some glorious opportunities in 1931, 1932 and 1933.

There has been a lot of talk that China has reached the limit of her endurance, and undoubtedly many Chinese sincerely feel that way. In the present crisis, furthermore, Japan has not acted with her usual high-handedness and has not so far taken any decided steps to impose her will upon the Chinese nation. This has of course greatly bucked up the Chinese people. It is believed, nevertheless, that when Japan decides to put on the heat, as she will probably do in the near future, China will give in, just as she has always done in the past.

It seems entirely reasonable to suppose that Japan's ultimate military objective is war against Russia. If such is the case, her immediate objective must be complete domination of the five northern provinces of China in order to secure her left flank. That she will renounce this objective in the face of any Chinese resistance does not seem possible. Because of her widely extended position in Manchuria and North China, and the fear that further aggression in China might prompt Russia to seize Sinkiang, Kansu, and Ninghsia, Japan may go a bit slowly at the present juncture, but that she has reached the point where she would refrain from further commitments seems entirely improbable.

If she takes North China, Japan will not only secure her left flank in the event of war with Russia, but will get back Shantung, the loss of which has never ceased to rankle in her breast. It took seventeen powers to get Japan out of Shantung in 1922, and with this coveted territory now almost within her grasp again, it seems unlikely that she will stay out because of threats of resistance by Chiang Kai-shek or feverish asseverations of loyalty to Nanking on the part of Han Fu-chu.

Straws in the wind which seem to indicate that Japan cannot be bluffed in the present crisis are the impending drive of a Japanese-backed Manchukuo-Mongol-bandit army into Suiyuan; the purchase of foodstuffs by "a certain quarter" to the extent that prices have sky rocketed over almost all China; the establishment of a military mission and landing field in Tsingtao; the consistent extension of economic domination in North China; the occurrence of an anti-Japanese incident in Taiyuan, Shansi; and the beginning of survey work for the Tientsin-Shihkiachuang Railway, the defense of which on completion will certainly not be left to the tender mercies of the Chinese.

This office believes that China, because she cannot, or will not fight, will accept the Japanese terms, if not openly and completely, then under cover and in substance, so that Japan will secure the ends which she desires.

The Japanese silence is ominous. For them to yield to Chinese threats of war would be a complete reversal of attitude. Because they are not applying pressure outside of the negotiations, the Chinese have gotten the idea that something has made them pause, - their economic condition, fear of pressure from the Powers, fear of over-extension, fear of Russia, fear that China may be able to put up serious resistance, difference of policy on the part of the Foreign Office and the Army, or some other unknown factor. If Japan has changed her attitude, her ultimate position in North China may be stronger than if she forces the issue now, - a steady boring in the economic field would give the Chinese in North China a community of interest with the Japanese that would be more valuable than forced co-operation, if there can be such a thing. But there is always the danger that the Japanese Army will not recognize this fact, and that if the Japanese apparently fail to get what they want by negotiation, the Army will take matters in their own hands and act to re-establish here the prestige that may be lost in Nanking. In other words, China, to pass this crisis, must really have the will to resist, even if apparently successful in the present negotiations. If Chinese bluff works, it will upset the Japanese policy on the mainland, and create a situation much more dangerous for them than the present one.

The only other apparent solution for this problem is the unlikely possibility that the Japanese have seen the error of their ways and will now go to extremes to conciliate the Chinese.

2. Situation in West China.

As indicated in paragraph 2 of our Report No. 9479, the situation in the Northwest has been disquieting to the Central Government for some time. Rumors have been rife that Chiang Hsueh-liang, Bandit Suppression Commander of Shensi, Chinghai, Kansu and Ninghsia, has been planning an allegiance with the Soviet to combat Japan, plotting an independence movement of the Northwest provinces, contemplating an amalgamation of his forces with the Red Armies which he is supposed to be fighting in order to resist foreign aggression, and engaging in other irregular activities.

It has been known for some time that Chang's old Northeast Army has not been fighting the Reds at all, but has been fraternizing with them and allowing them to do pretty much as they pleased. A recent report states that a considerable number of Chang's troops have deserted to the ranks of the Reds.

In view of these facts it is not strange that Chiang Kai-shek should feel that the Northwest situation was serious enough to demand his personal attention, and on October 22nd he flew from Nanking to Sian, for the stated purpose of "inquiring into military and political conditions, especially the progress of the campaign against the communists."

Chiang Kai-shek has also moved some of his best troops from the south into Shensi and Kansu. These include the crack First Division under his most loyal anti-Red general, Hu Chung-nan. This move is regarded as not only pressure on the Reds but as a warning measure against the wavering loyalty of the old Northeast Army and as a moral influence on Chiang Kai-shek's "little brother," Chang Hsueh-liang.

It is believed that Chiang intends to effect a thorough housecleaning and reorganization of Chang Hsueh-liang's forces. If recent reports are true that these troops are honeycombed with officers and men thoroughly indoctrinated with Red propaganda, such drastic measures may be needed if Chiang is to hold these former Three Eastern Province forces in line.

An agent of Chang Hsueh-liang's in Peiping was recently quoted to the effect that Chiang Kai-shek does not suspect Chang Hsueh-liang of any intention to align himself with Russia in a movement to separate the five provinces of Chinghai, Shensi, Kansu, Sinkiang and Ninghsia from China, and that the recent movements of Central Government troops are directed against the Reds and as a threat against the possible invasion of Suiyuan by the Japanese. The move is further intended, according to this agent, to warn Sung Che-yuan that he must not make further concessions to the Japanese.

From a foreign viewpoint it would seem that the presence of Central Government troops in Shensi and Kansu could have little intimidating effect upon either the Japanese or Sung Che-yuan, but from an Oriental standpoint perhaps the connection does not appear so far fetched.

Chang Hsueh-liang has recently fervently denied any intention of allying himself with Russia, which would seem a wise thing for him to do unless he is seeking permanent elimination from the present scheme of things in China. He is said, however, to be heartily in favor of ceasing hostilities with the Reds and uniting with them in a common front against the Japanese.

The Reds in the Northwest are said to have no real enmity toward the Chinese, but to desire most of all a chance to fight Japan. This eagerness on the part of Chang and the Reds to drive out the invader is believed to be pretty much of a case of "Heaven is high and the Emperor is far away." If the Japanese were camped on the door step they might not talk quite so loud.

Chang Hsueh-liang is quoted as having broadcasted to the world his willingness to die on the first front against Japan whenever the Central Government gives the order. If such is the case, it is much to be regretted that he was not more eager to perish in the forefront of the battle when the Japanese were taking over Manchuria and Jehol. He could have died very conveniently in Mukden on the night of September 18-19, 1931; a glorious opportunity for death was presented him at Chinchow in the closing days of the same year; and he failed to avail himself of another fine chance to immolate himself on the altar of his country during the Jehol campaign. In the last instance, however, he preferred to stay in Peiping and allow 128 Japanese, riding in motor trucks, to take the capital of Jehol Province without firing a shot.

Chang Hsueh-liang may yet die of lead poisoning, but the bullets will probably not be fired in battle.

Since Chiang Kai-shek's troops have arrived in Kansu they have been behaving very rudely toward the Reds, who must have been greatly shocked by the change in the attitude of the forces opposing them. Instead of fraternizing with them, the Central Government forces have engaged the Reds with considerable vigor, with the result that the Reds seem to have been driven away from the Sian-Lanchow motor road into the northeastern part of Kansu.

While it seems a little strange that Chiang would fly to Sian while such extremely important Sino-Japanese negotiations are being carried on in Nanking, there is no doubt that his presence in Shensi has had a most salutary effect upon the situation in the Northwest.

3. Chiang Kai-shek's Birthday.

After some argument as to whether Chiang Kai-shek's fiftieth birthday fell on October 29th or October 31st, the Nanking Central Observatory decided in favor of the latter date and the happy occasion was celebrated with great enthusiasm in most parts of China, as well as in foreign countries. Peiping and Tientsin were beflagged in honor of the day, but no public ceremonies were held.

The most elaborate and impressive observance of the occasion took place in Nanking, where a crowd of two hundred thousand people jammed the Ming Palace Airfield to witness the presentation to the National Government of fifty airplanes paid for by the contributions of the Chinese people. While the machines were presented to the National Government, the planes are constantly referred to as "Chiang Kai-shek's gift planes." The Generalissimo had previously announced that he wished no presents on his birthday but airplanes for the Chinese Army.

The response of the people to the campaign for funds to buy these planes has been remarkable. Planes have been contributed by provinces, by cities, by the Army and Navy, by police organizations, and many other groups. Workers in Shanghai contributed a day's wages, and industrial firms in the same city turned over a percentage of their daily receipts to the fund. The Chinese Catholics presented two planes, and the Apostolic Delegate to China, Monseigneur Zanin, offered prayers in behalf of the Generalissimo. The Chinese Buddhists also contributed generously as a body.

Nanking contributed the greatest number of planes, eighteen, while Shanghai was second with ten.

The fifty planes dedicated at Nanking on the 31st is said by no means to represent the total of all the machines purchased by the contributions of the people. The entire sum raised thus far amounts to around five million Mex dollars and it is reported that ultimately, when all contributions are in, about one hundred planes will be added to the Chinese Air Force, the present strength of which is a closely guarded secret.

Dedication of the planes was followed by an elaborate air show, in which the new machines spelled in the sky the words 中正, these being the characters for the personal name of the Generalissimo.

A solemn note in connection with the presentation of the planes was sounded by the Shanghai "Li Pao," which stated editorially that inasmuch as the machines were bought by the blood and sweat of the Chinese people, it was hoped they would not be used to bomb the Chinese people.

The great celebration in Nanking was somewhat like "Hamlet without the Hamlet part," for Chiang Kai-shek modestly absented himself and spent the day in comparative quiet in Loyang, where he gave a "birthday breakfast," complete with cake and candles, to Marshal Yen Hsi-shan, Pacification Commissioner of Shansi and Suiyuan; Fu Tso-yi, Chairman of Suiyuan; Hsu Yung-chang, Commander of Bandit Suppression Forces in Shansi; Chang Hsueh-liang, Vice-Commander of Bandit Suppression Forces in the Northwest; Shang Chen, Chairman of Hopei; and Lu Hsieh, Pacification Commissioner of Honan.

The generals returned Chiang's birthday breakfast the same day with a luncheon, during the course of which the Generalissimo delivered a speech urging China "not to forget her present humiliations and future difficulties."

The day before his birthday, the Shanghai "Ta Kung Pao" featured an interview with the Generalissimo in which he was reported to have declared that the Chinese Government, in her negotiations with Japan, would steadfastly maintain a limit beyond which she could make no further concessions. He is further said to have stated that the Government will attempt to restore its political administration in Hopei, while steps would be taken to suppress bandits in North Chahar and East Suiyuan.

The enthusiasm with which the Chinese at home and abroad observed Chiang Kai-shek's birthday shows that he has the people behind him probably more solidly than any other Chinese leader ever had.

On the evening of the same day that the birthday of the Generalissimo was being celebrated with such fervor, Mr. Tai Chi-tao, Chairman of the Examination Yuan of the Central Government, broke up a party of young people dancing at a foreign hotel in Shanghai. Mr. Tao exhorted the revelers to devote their time and money to national salvation and not to fritter them away in empty pleasures at a time of crisis.

4. Economic Developments.

While the current negotiations for the settlement of Sino-Japanese relations drag on in Nanking, the Japanese program for economic domination of North China proceeds apace. A recent report from Japan states that Japanese capitalists have decided to invest $250,000,000 Mex in North China. The agency for the expenditure of this tidy sum, according to the report, is to be a Sino-Japanese concern, the China Development Company, which has already opened offices in Tientsin.

Japan's strangle hold on the Tientsin cotton spinning industry has already been commented upon (No. 9465, par. 5, page 7), as has her interest in the production of raw cotton (No. 9461, par. 5). In connection with the latter industry, it is reported that the Japanese objective in encouraging cotton growing in North China is to secure complete independence from American supplies of this product in 1947.

With cotton fairly well sewed up, Japan is now preparing to take a hand in the wool business, according to a Central News report which states that the South Manchuria Railway Company is building a large woolen mill in Kalgan.

Plans for the Japanese exploitation of the Lungyen iron mines near Kalgan, the total ore deposits of which are said to exceed 45,000,000 tons, seem to be progressing rather slowly. Recent reports state that around $20,000,000 must be raised to put the mines in shape and open a smelting plant to reduce the ore.

A Sino-Japanese joint enterprise, the Hui-Tung Company, has recently been organized to operate air lines between North China and Manchuria. Head offices of the company have been established in Tientsin and opening of traffic is scheduled for the near future. The Chinese Central Government has consistently opposed air traffic with Manchuria, fearing that its inauguration will mark a step in the military as well as the economic domination of North China by Japan.

Reports are now current that Japan will soon undertake important harbor improvement work at Tangku.

Survey work for the Tientsin-Shihchiachuang Railway is reported under way. Previous plans for establishing the eastern terminus of the line at Tsangchow or Tangku have apparently been abandoned. The latest report is that the Pei-ning Railway will furnish a large amount of the capital required to build the line.

Under the protecting wings of the Japanese North China Garrison and the Bank of Chosen, the "Bank of East Hopei" was opened in Tungchow on November first. The object of the bank, according to Mr. Yin Ju-keng, head of the East Hopei Autonomous regime, is "to stabilize the financial system of East Hopei and North China, to prevent the ill effect of the currency policy of Nanking, and to promote cooperation with Japanese and Manchurian financiers."

Exportation of Changlu salt continues. The third shipment of 6000 tons left Tangku on October 25th and the fourth lot will soon be on the way, according to the Chinese press.

The smuggling situation in North China appears to have taken a slight turn for the better with the moving of the head office of the Anti-Smuggling Bureau from Nanking to Tientsin. It is reported that eleven preventive stations are to be established to combat smuggling on the Tientsin-Pukow and Peiping-Hankow Railways.

The Hopei-Chahar Inspection and Preventive Bureau, which was set up in Tientsin during September for the stated purpose of handling taxation on smuggled goods in Hopei, has been abolished by order of General Sung Che-yuan, Chairman of the Hopei-Chahar Political Council. Establishment of this bureau was regarded as a threat to the integrity of the Chinese Customs Administration (see our 9461, par. 4).

In spite of any preventive measures the Chinese may take, however, smuggling will probably continue in North China until the Japanese want it stopped or the business becomes unprofitable.

Smuggled whiskey is now sold openly in the Legation Quarter of Peiping at a dollar a bottle less than the tax-paid product.

5. Incidents.

(1) Assassination of the Chairman of Hupeh. General Yang Yung-tai, Chairman of the Hupeh Provincial Administration, was assassinated in Hankow on October 25th by a young Szechuanese, who is said to have confessed that he killed General Yang because the latter was attached to a policy of diplomacy instead of aggression towards "a certain foreign power." This alleged confession gave the Shanghai "Nippo" a chance to play up the murder as an anti-Japanese move.

If a desire to eliminate those who oppose active resistance to Japan was really the motive of the murder, it is not inconceivable that the assassin may have been a member of some terrorist organization which intended the act to serve as a warning to Chiang Kai-shek not to yield to foreign aggression.

(2) British Run Afoul of the Japanese in Formosa. Three seamen off a British war vessel are reported by Reuter to have been brutally beaten, and a naval officer grossly insulted by Japanese police in Keelung, Formosa, on October 7th. Japanese resentment against the sailors is said to have been aroused because the latter refused a demand to pay a taxi fare which had already been settled.

On account of this incident, Vice Admiral Sir Charles Little, Commander-in-Chief of the China Station, is reported to have postponed a proposed trip to Japan.

A few days previous to this most unpleasant affair, the Captain of the British submarine depot-ship "Medway" had to apologize to the Japanese authorities in Keelung because his paymaster had taken photographs in the fortified zone of that port.

(3) Trouble in Taiyuan. According to Japanese reports, on October 25th several Koreans and a Japanese were expelled from Taiyuan by the local Bureau of Public safety without any justification for such action. The Chinese side of the story is that the Koreans and the Japanese were engaged in selling drugs, possibly in competition with the Shansi provincial opium monopoly.

Japanese residents in Taiyuan were reported to have been greatly alarmed for their personal safety, and the Japanese Foreign Office is said to have taken a serious view of the affair as evidence of an anti-Japanese atmosphere in Shansi Province.

The affair has all the earmarks of a trifling incident out of which the Japanese wish to make as much as possible in order to have a pretext for possible future steps to dominate Shansi.

Shansi provincial officials are reported to have made the usual apologies for the incident.

(4) Japanese Wounded in Changsha. On November second a Japanese merchant residing in Changsha was attacked and seriously wounded, allegedly by a Chinese. The usual grave view of this situation is reported to be taken by the Japanese and a gun boat has been ordered to the port to protect Japanese nationals.

The incident is said to have had a very disquieting effect upon the Japanese population of Hankow, already in a state of apprehension because of the recent murder of a Japanese policeman in that city.

6. Japanese Hospitality.

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Tashiro gives Party at Zoo for Peiping Officials to Thank Them for Help during Manoeuvres

(Peiping "Chronicle" - November 4, 1936)

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Colonel, Infantry
Military Attache

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COMMENTS ON CURRENT EVENTS

November 6 - 20, 1936

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1. Sino-Japanese Relations
2. Public Reaction to Suiyuan Situation
3. Economic Developments
4. Shantung
5. Incidents

1. Sino-Japanese Relations.

As far as can be determined from press reports and such little information as is obtainable from other sources, the Sino-Japanese negotiations now in progress in Nanking remain in the same state of impasse as at the time of our last report. The last meeting between Mr. Kawagoe, the Japanese Ambassador, and General Chang Chun, the Chinese Foreign Minister, was held on November tenth, and no date has been set for another conference. After the last meeting, "well informed circles" reported that the views of both sides were as divergent as ever, and the outlook for an early rapprochement seemed decidedly unfavorable.

There seems to be every prospect that, barring some unforeseen development, the negotiations may drag on for some time. There is always the chance, however, that the Japanese Army, and less possibly the Navy, may initiate some decisive action in China, regardless of the state of the negotiations.

Thus the situation presents the picture of China outwardly adamant on the questions of autonomy of the five northern provinces and co-operation against Communism, and apparently getting away with this stand, for if Japan has any intention of forcing her terms she has as yet made no definite moves in that direction.

The Central News Agency quotes an editorial from the Tokyo "Nichi Nichi" of November 13th, which expresses dissatisfaction with the manner in which Japan has thus far approached the negotiations. The editorial, as quoted, urges the temporary shelving of the North China and anti-Red issues and recommends that Japan concentrate her efforts on reaching some kind of an agreement which will help to eradicate anti-Japanese feeling and help to protect Japanese life and property.

The editorial, if correctly quoted, may be indicative of a real dissatisfaction among some Japanese with the present policy of their country in China, or it may have been inspired from official quarters as a means of preparing the Japanese public for a softening, temporary or otherwise, of Japanese policy in China.

To a foreigner, the singularly passive attitude with which Japan has thus far regarded the Chinese resistance to her demands might be decidedly disquieting, suggesting as it does the possibility that decisive action may be impending.

To the Chinese, however, Japan's present inaction appears only as a fear of war with China. If and when Japan decides on further advances in China, she may expect stiffer resistance on account of her recent apparent hesitation to force the issue.

At the time of writing this report, the press gives prominence to reports, unconfirmed as yet, that Germany and Japan have signed a pact providing for a mutual front against Communism, in other words directly against Soviet Russia. This immediately suggests the possibility that Japan may have been temporizing with China until she could conclude an agreement with Germany which would greatly strengthen her position in the Far East, and a sudden change in her attitude toward China would be a natural consequence.

It still appears impossible to abandon altogether the premise, advanced in our last report, that the issues which Japan considers of immediate importance in her relations with China may have been settled at the time Chiang Kai-shek and Mr. Kawagoe met in Nanking last month. Several well informed foreigners have recently been heard to express the same opinion.

This office has consistently held the opinion that Japan does not intend any modification of her Asiatic policy. She may be going slow at the present time but it is believed that she will eventually get what she wants in China, and if she has not already secured all that she desires for the immediate future, she will take steps to do so at once.

In connection with China's recent big talk about being willing to go to war to prevent further encroachment on her territory, it is very significant to note that in spite of the fact that seventy airplanes were recently presented to Chiang Kai-shek, not one has as yet been sent to help in the defense of Suiyuan.

2. Public Reaction to the Suiyuan Situation.

The Central News Agency reports under the date of November 17th that Marshal Yen Hsi-shan, Pacification Commissioner of Shansi and Suiyuan, has donated $870,000 Mex left him by his father to the cause of defending Suiyuan against Manchukuo and Mongol troops.

To offer such a large sum to the cause of national defense would appear to be an unusually patriotic act, but in view of Yen Hsi-shan's reputation of being extremely close in money matters, it seems not unlikely that pressure from higher authority may have been put upon "the Model Governor" to make this contribution.

Yen Hsi-shan has long enjoyed a sizable revenue from the Shansi provincial opium monopoly, and it may be that Chiang Kai-shek, who has for some time been making great publicity of his anti-opium suppression campaign, may have considered this source of income as not strictly in accordance with the principles of the "New Life Movement." The recent meeting of the Generalissimo and Yen Hsi-shan at Loyang would have provided an excellent opportunity for the former to drop a hint that a substantial contribution to the cause of national defense might help to wash Yen clear of some of the stigma attaching to him as a dealer in opium.

Whatever was the real reason behind Yen's contribution to national defense, there is no doubt that among the Chinese people as a whole there is a keen realization of the danger in the Suiyuan situation, and there seems to be a genuine desire on the part of many individuals and groups to give money for the defense of that province. This reaction is particularly noticeable among the students, who in many places have raised funds by fasting, living in unheated buildings, curtailing pleasures such as attending picture shows, and in many other ways.

The Peiping Student Union is reported by Reuter to have launched a nation-wide campaign for the purchase of ten thousand fur-lined overcoats for the Suiyuan troops, many of whom are said to lack adequate winter clothing. Plans were also considered, according to the press, for a house-to-house canvas of Peiping by students and others to secure funds for the support of these troops, but this project was knocked in the head by the local municipal authorities on the ground that such a method of raising money offers too many opportunities for corrupt practices. The fact of the matter is probably that the plan for soliciting general contributions for the aid of Suiyuan was looked upon with disfavor by the Japanese.

It is encouraging to note, however, that the students seem to be turning their energies in the present crisis to raising funds rather than to mass meetings, parades, or other demonstrations which would not help the cause of national defense to any extent and might cause serious clashes with police under duress to suppress any activities which might be construed as anti-Japanese.

It is reported in the Chinese press that fifteen Peiping students have actually left in the past few days to join the forces defending Suiyuan.

With drives for patriotic purposes apparently becoming increasingly popular, the plight of the steady wage earner, the salaried man, the government employee, and the public official in China is not an enviable one, as such a person is usually not in a position to refuse demands for contributions to any cause which appears to be connected with national defense. An American now employed in the Salt Administration stated a short time ago that his September pay was cut two hundred and ninety dollars, - two hundred dollars for Chiang Kai-shek's birthday planes, and ninety dollars for income tax. He stated further that the income tax would in future be collected every month, and there was a strong possibility that the airplane deduction might also be put on a monthly basis.

All of which suggests that if the money thus collected really goes for the purpose intended, the sacrifices are probably worth while, but in China there is always the suspicion that the funds may be diverted to other uses, or may even pass into the pockets of those through whose hands they must pass.

3. Economic Developments.

Mr. Li Shih-hao, who recently took over the post of Chairman of the Economic Commission of the Hopei-Chahar Political Council after Mr. Wang Ke-min had decided, under pressure, not to accept the appointment (see Report No. 9465, par. 3), recently called at the Japanese Embassy in Shanghai in order to exchange views concerning the economic development of North China. Interviewed by Chinese pressmen after this visit, Mr. Li is reported to have stated that the "center of gravity" of Sino-Japanese economic cooperation in North China was in the hands of the Japanese North China Garrison and the Kuantung Army and that the Japanese Embassy would abide by the views of these two army groups.

(1) Inauguration of Air Traffic with Manchuria.

The newly organized Huitung Company (see Report No. 9482, par. 4) opened air traffic between North China and Manchuria on November 18th. Destinations of the first three planes despatched were Dairen, Chinchow and Paotow, - one plane for each of these points. The company has announced that air traffic will be maintained initially over the lines Tientsin-Dairen, Tientsin-Chinchow, and Tientsin-Chengte (Jehol City). Planes of the last named line are to stop at Peiping and Kalgan. The Tientsin-Dairen line is to link with the Dairen-Fukuoka line, making it possible to fly from Tientsin to Japan in one day.

Head offices of the company have been opened in Tientsin, with branches in Peiping, Kalgan, Chinchow, and Chengte. A hangar with a capacity of ten planes has been built at the East Arsenal Flying Field on the outskirts of Tientsin.

Negotiations are now reported in progress to open air mail traffic with Manchuria.

(2) Tientsin-Shihchiachuang Railway.

The latest report concerning this much discussed line is that the Hsinchung Company, a subsidiary organ of the South-Manchuria Railway, will invest $2,500,000 Mex in the building of the railway, and that construction will begin early next spring.

In connection with the Hsinchung Company, the Central News recently carried a despatch from Tokyo which stated that the company had been attempting to increase its capital from $10,000,000 to $100,000,000 Mex, but had been unsuccessful because of the reluctance of Japanese capitalists to invest money in China. Thus far the Company is said to have sold only one-fourth of its $10,000,000 worth of capital stock, and some doubts are entertained as to whether the S.M.R. will take up the unsold shares. If this is the case there will be little left in the Hsinchung Company's coffers if it invests $2,500,000 in the Tientsin-Shihchiachuang Railway.

(3) Lungyen Mining Company Shares Rising.

Reuter reports that the shares of the Lungyen Mining Company, which went begging among Chinese investors only a month ago, have been rising steadily of late and are now accepted as security by banks and shops in Peiping. According to Mr. Lu Chung-yu, Director of the Company, a plan for the reorganization of the mines, involving an expenditure of $20,000,000, has been adopted and Japanese capitalists have been invited to participate.

Opening of the Lungyen iron mines, situated near Kalgan, has long been mentioned as one of the important items in the Japanese agenda for the economic development of North China.

(4) Rise in Food Prices.

Press reports state that plans for the establishment of a National Food Control Bureau, to regulate the transportation and distribution of foodstuffs, have been tentatively decided upon by officials of the Ministries of Interior, Finance, Industries and War. Meanwhile, according to the Central News Agency, immediate steps are being considered to check the rise in prices of food.

The recent rise in food prices, in spite of the best harvests in many years, has caused consternation throughout China. Cause of the rise is generally laid to heavy buying on the part of the Japanese, but it seems unlikely that this could have affected the market to such a great extent, particularly in areas where Japanese food buyers would be unlikely to operate.

Other causes mentioned as possibly affecting food prices are a fear of a fall in the value of the national currency, and anxiety lest the excellent harvests of last autumn should be followed by famine conditions next year.

(5) Smuggling.

Central News reports that in spite of rigid measures taken by the Chinese Customs Administration to confine the clandestine trade in North China, smuggled goods are again flooding Tientsin. It is said that the Anti-Smuggling Bureau of the Ministry of Finance, which was recently moved to Tientsin from Nanking, is encountering great difficulty in carrying on its work, and reports have been current that the Bureau may have to be moved to some other city, such as Hsüchow in Kiangsu on the Tientsin-Pukow Railway.

That smuggling activities are not confined to North China is indicated by a Central News Agency report from Canton which states that the Customs Administration has lost around $10,000,000 in duties in that port during the past year because of smuggling of petroleum, matches, sugar and artificial silk into Kwangchow Bay, from whence it is transported into southwest Kwangtung.

Reuter reports an unpleasant smuggling incident in Foochow on the 10th of November. According to the report, Formosan smugglers attempted to recover by force woolen goods which had been seized by the Customs for non-payment of duties. Driven off the Customs premises, the smugglers surrounded the house of the Customs Commissioner, Mr. E. T. Williams, an American citizen, and it was finally necessary for Japanese consular police to disperse the disturbers.

(6) Income Tax.

The first group of sixty-eight students was graduated on November 16th from the school recently established in Nanking for the training of income tax collection officials. Collection of the income tax is reported to have begun throughout the country, except in North China, on November first.

(7) Changsha-Chengtu Highway to Open.

The Central News Agency reports that the highway linking Changsha, Hunan, and Chengtu, Szechwan, has been completed and will be formally opened to traffic early next month. This highway is one of the longest in China, measuring about 1,000 kilometers.

4. Shantung.

Because it is commonly known that the loss of Shantung has long been a thorn in the side of Japan, any indications of unusual Japanese interest in that province are always carefully watched.

Central News reported on November 7th that Major General Matsumuro, Chief of the Special Service Bureau of the Japanese Army in Peiping, had arrived in Tientsin for a conference with Lieut. General Tashiro, Commanding the Japanese North China Garrison, after which he would proceed to Tsingtao "on an important mission."

General Matsumuro did not go to Shantung, but on November 9th, Major General Hashimoto, Chief of Staff of the Japanese North China Garrison, left for Tsingtao by air. In Tsingtao, General Hashimoto called on Admiral Shen Hung-lieh, Mayor of the city, and left next day for Tsinan where he had two conferences with Han Fu-chu.

Whatever was the real reason for General Hashimoto's visit to Shantung, it seems hard to believe that it was purely of a social nature and that nothing concerning Sino-Japanese relations was discussed, as was announced from Japanese Headquarters in Tientsin on the 14th of November.

That the visit may have been more than a routine courtesy call is indicated by the fact that on the 20th of November Chiang Kai-shek flew from Loyang to Tsinan for a conference with Han Fu-chu, after which he returned the same day to Loyang.

Another straw in the wind whose meaning, if any, is difficult to determine, is the fact that Han Fu-chu and Sung Che-yuan, Chief of the Hopei- Chahar Political Council, held a lengthy conference in Taming, southern Hopei, on the 17th.

Han Fu-chu has recently come out with another fervent declaration of undying loyalty to the Central Government, which might suggest the thought "Methinks he doth protest too much!"

Four Japanese cruisers arrived at Tsingtao from Shanghai on November 13th. After their arrival, 800 armed bluejackets paraded through the city for more than three hours.

5. Incidents.

Another Japanese Murdered in Shanghai. A Japanese seaman named Yasuji Tasake was murdered in the dock area of the Shanghai International Settlement on November 11th. The assailant ran away and has not as yet been apprehended.

The Domei News Agency reports that the Japanese Seamen's Association of Kobe, of which the deceased was a member, is very indignant over the murder, but with this exception, the unfortunate affair seems to have caused surprisingly little comment in Japanese circles.

Strikes in Shanghai Japanese Cotton Mills. One of the most serious labor situations in the history of Shanghai was precipitated on November 10th when a strike of operatives in some Chinese cotton mills extended to three Japanese mills in the Yangtzepoo district. About eight thousand workers were affected.

It was thought for a time that the strike could be settled amicably, but on November 17th the situation took a sudden turn for the worse when several hundred strikers stormed a Japanese mill on Jessfield Road. The police, a detachment of the Shanghai Volunteer Corps, and four truck loads of Japanese marines were called to the scene before order was restored.

Four Japanese mills are now standing idle and press reports state that the mill owners' association is considering a general lockout as a means of bringing the strikers to terms.

Workers in Japanese cotton mills in Tsingtao are also reported to have struck on November 20th.

On November 15th, fifteen Japanese warships were reported at Shanghai, the largest naval concentration in the port in many months.

According to a Reuter report, a definite move to create a virtual Japanese concession in Shanghai was launched on November 15th by the Japanese Residents' Association. A committee from this body is reported to have proposed that there should be created a "special administrative area," comprising the so called extension or extra-settlement roads along the northern boundary of the International Settlement. These roads are at present administered by the Shanghai Municipal Council. The report states that creation of such an "administrative area" would be tantamount to placing a large section of the Hongkew and Chapei districts under Japanese control.

Keelung Incident Discussed in the House of Commons. Reuter reports that the incident in which sailors from a British naval vessel were reported to have been brutally beaten in Keelung, Formosa (see Report No. 9482, item 5, subpar. 2) has been brought up twice in the House of Commons during the past two weeks. According to the report, the affair is still under discussion with the Japanese Government.

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COMMENTS ON CURRENT EVENTS

November 20 - 27, 1936

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1. Sino-Japanese Negotiations
2. Japanese Attitude Toward Suiyuan Situation
3. Chinese Reaction to German-Japanese Agreement
4. East Hopei Celebrates its First Anniversary
5. Economic Notes
6. Incidents

During the period under review, the Sino-Japanese negotiations remained at an impasse; the eyes of the nation continued focused on the Suiyuan crisis; the labor troubles in Shanghai subsided, and the East Hopei Autonomous Government held its first birthday party.

1. Sino-Japanese Negotiations.

The negotiations remain in the same state of impasse as at the time of our last report. No further meetings between General Chang Chun, the Chinese Foreign Minister, and Mr. Shigeru Kawagoe, the Japanese Ambassador, have taken place, and no date has been set for another conference.

According to a Reuter despatch from Tokyo, termination of the negotiations is being considered in Japanese official circles, for the reason, so it is alleged, that China is spreading propaganda designed to show that Japan is responsible for the present hostilities in Suiyuan.

A Central News Agency despatch of the 24th states that the future of the negotiations depends upon Japan, as China cannot accede to any demands which will infringe upon her sovereign rights as an independent nation. The despatch further states that the Sino-Japanese negotiations are of secondary importance in view of the crisis in Suiyuan.

2. Japanese Attitude Toward the Suiyuan Situation.

Japan's recent naive efforts to disclaim responsibility for the Suiyuan situation were commented upon in our last Situation Report (No. 9491, page 2). This washing-of-the-hands attitude was further reflected in a Central News despatch of November 21st, quoting Mr. Kawagoe, the Japanese Ambassador to China, to the effect that the Japanese Government had nothing to do with affairs in Suiyuan; and Japan would not interfere with any measures the Chinese Government might take to cope with the situation. Subsequent to the publishing of this despatch, a Chinese citizen highly placed in official circles in Nanking informed the Military Attache that the Japanese North China Garrison and the Kuantung Army had resented this statement by Mr. Kawagoe on the grounds that it was tantamount to giving China carte blanche to take any action she might desire against Japanese Army personnel co-operating with anti-Suiyuan forces.

Reflecting the same attitude as Mr. Kawagoe, the official spokesman of the Japanese Foreign Office, according to a Central News Agency despatch from Tokyo, on November 20th stated that as the Suiyuan affair was purely local and not likely to affect the security of Manchukuo, Japan had no intention of interfering, even if Sung Che-yuan were to join in the anti-rebel campaign. The spokesman was further quoted to the effect that the planes, tanks, and field guns used by the forces attacking Suiyuan might have been bought by the irregulars if they could not make them themselves.

The same despatch, however, ascribed to Mr. Arita, the Japanese Foreign Minister, a statement that Japan could not remain unconcerned about events in Suiyuan if Japanese rights in Manchukuo should be affected.

The above may be an indication of the attitude of civil officials toward the Suiyuan situation, but evidently the Army, in certain quarters at least, feels differently, if Major General Seiichi Kita, Japanese Military Attache in Shanghai, was correctly quoted in an interview which he recently gave to Mr. Hallet Abend, Shanghai correspondent of "The New York Times". The gist of this interview was:

(1) Japan is participating in the events now taking place in Inner Mongolia.

(2) Japanese officers are co-operating with the Manchukuo-Mongol forces.

(3) Japan intends to place 117,000 square miles of territory in Inner Mongolia under her control.

(4) Japanese reserve officers have established a military school in north Chahar for the training of Mongols, but these officers will not take part in any military operations. These reserve officers are paid by the Mongols.

(5) From the proceeds of the Opium traffic in Inner Mongolia, the Mongols have purchased airplanes, tanks, armored cars, and other munitions of war from Japan.

This interview created considerable consternation among the Chinese, and may possibly have not pleased certain circles in the Japanese Army, for on the 25th of November, Colonel Tatsumi Amemiya, Japanese Military Attache in Nanking, came forth with a statement to the press that General Kita must have been misquoted, for to have made the statements ascribed to him would have been incompatible with his status as an officer of the Japanese Army. The Japanese subjects among the invaders of Suiyuan, according to Colonel Amemiya, are ronins with whom the Chinese Government should deal as it sees fit. As to the planes, tanks, and artillery in the hands of the anti-Suiyuan forces, Colonel Amemiya admitted that they might have been sold by certain Japanese manufacturers who had taken advantage of the situation for their own profit.

That the statements of civil officials concerning the Suiyuan situation should be at variance with the sentiments expressed by the Army on this subject is to be expected, but it is difficult to understand why a statement made by the Japanese Military Attache in Shanghai should be contradicted by his junior in Nanking.

Lieutenant General Itagaki, Chief of Staff of the Kuantung Army, is reported to have flown to Changpei on the 25th, possibly to investigate the activities of the "ronins" which are said to be operating with the Manchukuo-Mongol-bandit forces.

That the Suiyuan situation is regarded as a national crisis throughout the country is evidenced by the number of contributions which are being received by the Central as well as provincial governments for the support of the troops fighting against the invaders.

Mention was made in our last Comments of Yen Hsi-shan's gift of $870,000. Dr. H. H. Kung, Minister of Finance and a Shansi man, is reported to have contributed $10,000, while similar amounts are said to have been raised by the employees of the Shanghai-Nanking Railway, and the Shanghai-Hangchow-Ningpo Railway, and the Salt Gabelle.

The press is devoting considerable space to reports of gifts which show unusual patriotism and self sacrifice on the part of the donors; such as the dollar, a whole month's wages, contributed by a blacksmith's apprentice who refused to give his name; the similar gift offered by a beggar in rags; and forty cents brought in by a schoolboy who had saved it out of his pocket money allowance for several weeks. The best press story about contributions is, however, one to the effect that the Shansi soldiers fighting in Suiyuan petitioned Yen Hsi-shan to take their pay for the support of the cause, a request which Yen could not bring himself to grant.

3. Chinese Reaction to German-Japanese Agreement.

According to press reports from Nanking, the principal reaction in Chinese official circles to the German-Japanese agreement against the Communist Internationale, the terms of which appeared in the press of November 27th, is apprehension lest the agreement be used by Japan as a lever to enforce her recent demands for joint Sino-Japanese military resistance to Communist activities in China.

The Chinese apparently feel that the question of whether there is a real necessity for Germany and Japan to form a united front against Communism is one for these two countries to decide for themselves. China, however, can rely on her own efforts to deal with the Communist situation within her borders without the cooperation of any third power.

The Chinese press comments generally upon the brevity of the agreement as a possible indication that there may be secret clauses whose importance is far greater than that of the published terms.

Chinese concern over the agreement has been somewhat allayed by a statement issued from Berlin to the effect that the pact is in no wise directed against China.

A report recently circulated in Tokyo that negotiations are in progress for an Anglo-Chinese offensive and defensive alliance has been officially denied by the Chinese Government, according to a Reuter despatch from Shanghai.

A Moscow report states that as a result of the conclusion of the German-Japanese pact, Russia has refused to sign the Eastern Fisheries Convention with Japan. The Convention was negotiated some time ago and had already been initialled.

4. East Hopei Celebrates its First Anniversary.

The East Hopei autonomous regime celebrated its first anniversary at Tungchow on the 25th of November. A feature of the occasion was the raising, as the new standard of East Hopei, of the old five-barred flag used by the Chinese Republic prior to 1928, when the banner of the Kuomintang Party became the national emblem.

On the day of the celebration a plane, believed to be Japanese, appeared over Peiping and dropped thousands of hand bills on which were printed, among others, the following slogans: "The Masses of North China are against the Kuomintang"; "The People of East Asia are opposed to Communism"; and "The Only Hope of Peace in China is through Sino-Japanese Cooperation".

Lieutenant General Itagaki, Chief of Staff of the Kuantung Army, and Major General Tashiro, Commanding the Japanese North China Garrison, were present as honored guests and made speeches emphasizing the importance of Sino-Japanese cooperation.

Care was exercised by local officials to prevent students and others who might have made a disturbance from going to Tungchow on the day of the anniversary celebration.

5. Economic Notes.

Japanese "Oriental Development Company" to Enter the China Field.

According to the "Japan Advertiser," a concern known as "The Oriental Development Company" has set aside Yen 15,000,000 for the purchase and expansion of spinning mills in North China. Another million is to be spent in developing the Kalgan electric light plant, and a like sum is to be invested in cotton production. The article further states that two Japanese paper manufacturing plants are shortly to be opened in North China, using reeds as raw material.

Huiting Air Transport Company in Difficulties.

According to a report from Tientsin, the recently organized Sino-Japanese aviation concern, the Huitung Company (see Report No. 9489, page 4) is in difficulties because of a misunderstanding concerning the military air service which the Japanese Army now maintains with Tientsin as a base.

The Chinese stockholders are reported to have gained the impression that military air service would be abolished after the company had begun operations. The Japanese, however, state that no such understanding was ever arrived at, and weekly air service with military planes is still being maintained between Peiping and Paotow; Tientsin and Chengte, Jehol; and Tientsin and Tsingtao.

It is rumored in Chinese circles that the Japanese now desire a clause inserted into the agreement concerning the Huitung Company to allow military planes to fly to Tientsin direct from Fukuoka, Japan, a concession which local Chinese authorities are said to be unwilling to grant.

Lunghai Railway Service to be Extended.

The Central News Agency states that beginning December 15th of this year, freight and passenger service will be opened over the Lunghai Railway between Sian, Shensi, and Paochi in the western part of the same province, marking the completion of the first stage of the projected Sian-Chengtu (Szechwan) line.

The same despatch announces beginning of the construction of an iron bridge over the Yellow River near Tungkwan, on the Shansi-Shensi border, to link the Lunghai Railway with the Tatung-Puchow Railway line of Shansi Province.

Nanking to be Linked with Canton by Railway.

On November 25th, according to the Central News Agency, the Executive Yuan approved the Nanking-Kiangsi Railway loan of 14,000,000 yuan for the construction of a line connecting Nanking and Canton, via Nanchang, Kiangsi, and Hsiangtan, Hunan, the latter point being located on the Canton-Hankow Railway.

The proposed new line is to run from Suancheng, Anhui, on the Kiangnan Railway, to Kweichi on the Chekiang-Kiangsi (Hangchow-Nanchang) Railway. A line is also to be constructed from Nanchang to Pinhsiang in western Kiangsi. Pinhsiang is already connected with the Canton-Hankow Railway by a line running to Hsiangtan, Hunan.

Funds for the new line are to be secured from the Chinese Banking Syndicate and the Board of Trustees of the Sino-British Boxer Indemnity Refund Commission.

Construction of Chengtu-Chungking Railway to Begin in December.

Completion of the survey for the proposed Chengtu-Chungking railway is reported by the Central News Agency, which also states that construction is to begin in December of this year. $6,000,000 has been set aside out of funds realized from the sale of Szechwan provincial reconstruction bonds, and additional funds are to be borrowed from Shanghai banks.

When the line is completed it will be the first railway in Szechwan.

Shanghai Municipal Council to Cut its Expenses $1,000,000.

Reuter reports that the Shanghai Municipal Council has adopted an economy program which will save $1,000,000 annually. Savings are to be effected principally by a cut of $650,000 in the pay of foreign employees, and $150,000 in the pay of Chinese employees.

Only Native Products to be used by Chinese Government Offices.

The Executive Yuan has promulgated a set of provisional regulations requiring that all supplies used in government offices must be products of China, except in cases where requirements demand the use of imported articles.

6. Incidents.

Labor Troubles Continue in Shanghai and Tsingtao.

According to a Shanghai report of the 23rd, the strike situation on that date had greatly eased, with most of the Japanese mills operating normally. Trouble flared up again on the 26th, however, when 2,400 Chinese hands of the Nikkai Kaisha, a Japanese mill in the Pootung district, went on strike.

Reports were in circulation last week that a general strike of all mill hands in Shanghai, involving 50,000 workers, was to be called, but the movement failed to materialize.

Shanghai officials are watching the strike situation very closely, because of its possible effect upon Sino-Japanese relations.

A Domei despatch from Tsingtao states that Chinese marines had to be landed in that port on the 26th to reinforce local police in controlling striking cotton mill workers.

Pao An Tui Mutiny in the Demilitarized Zone.

A company of 400 Pao An Tui (Peace Preservation Troops), formerly stationed at Changli, mutinied at Wali, 10 miles east of Tongshan, on November 20th. These troops, a part of the military force established under the Tangku Truce Agreement for the police of the Demilitarized Zone, were being transferred by train from Changli to Tongshan. On arriving at Wali, they mutinied and left the train, fleeing toward Fengjun, north of Tongshan, carrying along with them two Japanese employed by the government of the Demilitarized Zone. Dissatisfaction at being transferred to Tongshan and resentment at the recent relief of a company commander are given as reasons for the mutiny.

Overtaken near Fengjun by Japanese troops and other Pao An Tui, the mutineers were surrounded, and after a short engagement, captured and disarmed.

According to the Domei News Agency, Major Tyuzo Furuta, commanding the Japanese troops in Shanhaikuan, who had been charged with the responsibility of accomplishing the transfer of the company from Changli to Tongshan, committed seppuku (hara-kiri) because of the mutiny.

Chinese Customs Officials Beaten in Foochow.

A report from Foochow states that Chinese customs officials who recently attempted to board a Japanese steamer at that port to search for smuggled goods were set upon and beaten by Formosans, after which the goods were landed without payment of customs duties.

Members of National Salvation Society Arrested in Shanghai.

Seven Chinese, prominent in Shanghai, were arrested on November 24th on a number of charges including those of cooperating with Communists, instigating strikes, and engaging in subversive activities having as their object the overthrow of the Chinese Republic.

The persons arrested were Messrs. Li Kung-po, President of the Liangtsai Memorial School; Wong Tsao-shih, Professor of Economics at Kwanghua University; Shen Chung-ju, Dean of the Shanghai Law College and a member of the standing committee of the Bar Association; Sa Chien-li, lawyer; Tsao Tao-feng, journalist; Tsang Nai-chi, former assistant manager of the Chekiang Industrial Bank; and Miss Sze Liang, lawyer.

The arrests caused a sensation in local student and cultural circles. Students of twenty-one government universities and middle schools, including practically every educational institution of importance in and near Peiping except Tsinghua University and the National Normal University, went on a two day strike to register protest against the action of the Shanghai authorities. A deputation of seven from the local Student Union has been sent to Shanghai to plead for the release of the suspects, and a joint telegram signed by over one hundred local university professors has been sent to the Executive Yuan urging the same action.

Wu Tieh-cheng, Mayor of Shanghai, recently stated in an interview with Reuter's Shanghai representative that the arrests were imperative in the interests of peace and order and of saving Shanghai from anarchy. The persons accused, according to the Mayor, were plotting, under the cloak of patriotism, a general strike and the ultimate overthrow of the Chinese government, using the recent labor troubles in Shanghai as an opportunity for their subversive activities.

Another Soviet-Japanese Border Clash.

Russian and Japanese news agencies report a clash on November 24th between forty Japanese soldiers and a Soviet detachment of equal size at a point on the Soviet-Manchukuo border about thirty-two kilometers north of Pogranitchnaya.

The Japanese claim that the Soviet detachment was armed with a trench mortar and inflicted serious losses on their troops.

The Soviet side of the story is that the Japanese wilfully crossed the border and advanced a half mile into Soviet territory, firing on the border guards, who were later successful in driving away the invaders. The Soviet Foreign Office is reported to have lodged a sharp protest with the Japanese Embassy in Moscow.

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COMMENTS ON CURRENT EVENTS

November 28—December 10, 1936

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1. Sino-Japanese Negotiations
2. China's Attitude Toward Japan's New Pacts
3. Attitude of Kuantung Army and Manchukuo Toward Suiyuan Situation
4. Relief of General Matsumuro
5. Economic Notes
6. Incidents

During the period under review, the attention of both countries again became fixed on the Sino-Japanese negotiations which for some weeks had been at a stalemate; China continued gravely concerned over the pacts recently concluded by Japan with Germany and Italy; the Kuantung Army came out with a very significant statement concerning the situation in Suiyuan; and Japanese marines were landed in Tsingtao because of the situation arising out of strikes in Japanese owned cotton mills.

1. Sino-Japanese Negotiations.

After having been in a state of quiescence for some weeks, the Sino-Japanese negotiations again became front page news on December 4th, when a meeting took place in Nanking between Mr. Kawagoe, the Japanese Ambassador, and General Chang Chun, the Chinese Minister for Foreign Affairs.

At this meeting, according to press reports, General Chang vigorously protested against the recent landing of Japanese marines at Tsingtao (discussed below under "Incidents") and requested their immediate withdrawal. Mr. Kawagoe is then said to have suggested that the discussion of various other Sino-Japanese differences be resumed, which General Chang declined to do pending settlement of the Tsingtao and Suiyuan situations. Thereupon Mr. Kawagoe produced and read a document purporting to be a resumé of the entire Sino-Japanese discussions and containing a statement of the following points to which China was alleged to have agreed:

(1) Establishment of direct air traffic between Japan and China.
(2) Revision of the Chinese tariff.
(3) Control of Korean anti-Japanese activities in China.
(4) Employment of Japanese advisers by Nanking.
(5) Enforcement of drastic curbs on anti-Japanese activities.

At the termination of the interview, Mr. Kawagoe is reported to have left this document behind. General Chang refused to accept the paper and returned it to the Japanese Embassy by messenger, from which office it was again sent to the Chinese Ministry of Foreign Affairs.

Reports from Tokyo indicate that the Japanese press took considerable note of the incident of the returned document and public interest again appeared to be focused on the Sino-Japanese negotiations which had been the subject of little comment for some weeks past.

China reacted immediately to the affair with a long statement issued on December 7th by a spokesman of the Ministry of Foreign Affairs. This statement, in summing up the course of the Sino-Japanese negotiations since their inception, began with a declaration that it was China's belief that the differences between the two countries should be settled "on the principle of equality, reciprocity, and mutual respect for each other's sovereignty and territorial integrity."

The statement went on to say that in the course of the negotiations, Japan had presented certain demands to which the Chinese had been unable to accede because these demands were inconsistent with the principle elucidated above. It was also pointed out that the Suiyuan situation had arisen as a serious bar to the success of the negotiations, but that Japan had taken no steps to comply with China's requests for a settlement of this situation.

As to Mr. Kawagoe's documentary summation of the negotiations, this was not a correct record of what had transpired and therefore could not be accepted by the Chinese Foreign Minister even as a basis of reference for further discussions.

The Central News Agency sets forth the attitude of the Chinese Government in detail on each of the five points alleged by Mr. Kawagoe to have been agreed upon by China as follows:

(1) Direct air traffic: Cannot be discussed while military planes continue to fly over China without permission, in violation of China's sovereignty.

(2) Revision of China's tariff: While the tariff may be readjusted at any time as required by natural financial and commercial conditions, the Chinese Government considers the suppression of smuggling and the freedom of the Chinese Customs preventive service as questions of vital importance to be considered in connection with any such revision.

(3) Suppression of anti-Japanese Korean activities: The Chinese Government desires to see no illegal acts committed on her soil by any foreigners, but feels that unlawful acts by Koreans, Formosans, and other Japanese citizens should be suppressed by Japan.

(4) Employment of Japanese advisers: While China on her own initiative might invite Japanese advisers in certain instances, the question of their employment should not be made the subject of a demand by a foreign government.

(5) Suppression of anti-Japanese activities: The Chinese Government has repeatedly stressed the importance of maintaining friendly relations with foreign nationals, but it was felt that anti-Japanese feeling would soon be eradicated if Japan would cease to commit acts to arouse the hostility of the Chinese people.

Setting aside speculation as to whether the points listed above had been agreed to by the Chinese, as alleged by Mr. Kawagoe, they may represent what Japan expects to obtain at the present stage of the negotiations. If such is the case, they are much less drastic terms than those upon which Japan is previously reported to have insisted; namely autonomy of the five northern provinces and military cooperation against communism.

How hard Japan will press these most recent demands, and to what extent China is prepared to resist them, is difficult to predict at the present moment. This office, however, has persistently maintained that Japan has always obtained what she has wanted in China in the past, and it is believed that she will leave no stone unturned to continue to do so in the future.

That the Sino-Japanese negotiations have been allowed to drag along for so long with the Chinese apparently successful, thus far at least, in resisting the Japanese demands, has been surprising. In view of the fact, however, that Japan has just concluded pacts with Germany and Italy, it seems logical to assume the possibility that the Sino-Japanese negotiations may have been neglected while these more important deals were pending.

With the German and Italian pacts in the bag, it does not seem unlikely that the presentation of Mr. Kawagoe's summarization of what Japan considers China has agreed to during the course of the negotiations may be an indication that the attitude of Japan toward China will be decidedly stiffened in the immediate future.

In this connection, a Domei despatch from Tokyo under date of December 9th reported that Count Terauchi, the Minister of War, in a press interview declared that Japan is determined to take effective measures immediately if her interests in China are jeopardized.

The despatch further stated that political parties are becoming openly critical of the Government's China policy, and the Minseito, the majority in the lower House of the Diet, has appointed a committee to investigate the Government's foreign policies, which the party heads describe as ineffective.

2. China's Attitude Toward Japan's New Pacts.

China's concern over the recently concluded German-Japanese pact is evidenced by a message addressed by Dr. Chu Chia-hua, Chairman of the Sino-German Cultural Association, to the German public. The message, which according to the

Central News Agency has received wide publicity in Germany, expresses deep concern over the present trend of events in that country, events which, according to Dr. Chu, tend to menace the peace of the world.

The message expresses fears lest Germany's aggressive foreign policy may eventually have an unfavorable effect upon China's economic situation and thus undermine the commercial foundations which Germany has built up in China during the past thirty years.

Calling attention to the fact that China has long been a friend of Germany, the message expresses the hope that the conclusion of the pact will not threaten the maintenance of cordial relations between the two nations in the future.

Mr. Quo Tai-chi, the Chinese Ambassador to Great Britain, is reported by Havas News Agency to have expressed in a recent press interview his apprehensions lest the German-Japanese pact should contain secret provisions and that the vagueness of the published text might lead other nations to join in the agreement.

Commenting on the German-Japanese pact in a speech at Loyang on November 29th, Marshal Chiang Kai-shek is reported to have expressed the belief that the agreement contains no secret clauses. He is further said to have stated that he did not think Germany could afford to ignore entirely her friendship with China and other countries, and that he did not think the general situation in the Far East would be altered as a result of the pact. If Chiang Kai-shek's remarks were correctly quoted, it is believed that they were intended to bolster Chinese morale in the face of the depressing effect caused by the news of the conclusion of the pact.

China's principal concern in the pact recently concluded between Italy and Japan is over the reports that an Italian consulate is to be established in Mukden or Harbin. The Japanese Foreign Office has stated that the establishment of an Italian consulate in Manchukuo has been the subject of negotiations between Rome and Hsinking and has nothing to do with the opening of a Japanese consulate-general in Addis Ababa, as provided for in the Italian-Japanese understanding. In spite of this declaration, however, it is natural for the Chinese to feel that the opening of an Italian consulate in Manchukuo, which is generally believed would be tantamount to *de facto* recognition of the latter country, is a concomitant of the conclusion of the pact.

According to a Reuter despatch of December 30th, it is felt in Chinese government circles that the Chinese diplomatic representatives in Berlin and Rome did not exert themselves as much as they should have on behalf of their own country while the pacts were under consideration. As a result the Chinese Foreign Office is said to be considering a reshuffling of diplomatic representatives in some important posts abroad.

3. Attitude of Kuantung Army and Manchukuo Toward Suiyuan Situation.

The conflicting statements recently issued in various Japanese circles concerning the interest of Japan in the Suiyuan situation have been commented upon in our recent reports. Hence the statements recently issued by the Kuantung Army and the Manchukuo Foreign Office are of particular interest as they leave no doubt as to the attitude entertained in these two quarters.

The statement of the Kuantung Army, quoted in a special despatch from Hsinking to the *Manchurian Daily News* (Dairen), declares that Japan is gravely concerned over the growing menace of communistic aggression against the Far East and especially China. Describing the invasion of Suiyuan as "the fight of Mongolian volunteers against Communism," the statement declares:

> "The present rise of the Inner Mongolian Army to resolute action is an act of self-defense aimed at emancipating Inner Mongolia from the oppression of the Chinese Communist Party and of those militarist cliques associated with it.
>
> "Inasmuch as the aim of the action taken by the Inner Mongolian Army is perfectly in line with the national policies of both Japan and Manchukuo, the Kuantung Army is greatly interested in the activities of this force and hopes for its success. If, on the other hand, peace and order in the territory adjoining Manchukuo are disturbed by the present warfare with resultant effects upon Manchukuo, or if there arises the danger of the entire territory of China being sovietized, the Kuantung Army will have no alternative but to take whatever steps it may deem appropriate."

The statement of the Manchukuo Foreign Office is in practically the same vein, calling attention to "the steady penetration of Communism into Inner Mongolia," and declaring that it is but natural that the Mongols should combat this menace. The statement goes on to say that the Manchukuo Government will take definite action should her national interests be affected by further developments in East Suiyuan.

That these statements are tantamount to a declaration that an advance of Chinese troops into Chahar would be considered a disturbance of peace and order in a territory adjacent to Manchukuo which would have to be resisted by the Kuantung Army is clearly indicated by a Tokyo despatch printed in the *Manchurian Daily News* of December 8th as follows:

> "Although the Foreign Office authorities are as yet unable to predict the ultimate outcome of the fighting between the Mongols and the Suiyuan Army owing to a lack of precise information about the fighting, it is pointed out that the Japanese Government will be compelled to take whatever measures it deems appropriate in the event the situation there is aggravated to the detriment of peace and order in Manchukuo *or in territory under the control of the Hopei-Chahar Political Council*."

To describe resistance to the invasion of Suiyuan by Manchukuo-Mongol-bandit forces (always named in the Chinese press as "Mongol-bandit-Manchukuo forces") as a Communist threat against Inner Mongolia, when the nearest Communist forces are in northern Kansu, is of course ridiculous. It would appear, therefore, that if the Kuantung Army can issue an official statement containing such a manifest distortion of the truth, it will have little trouble in finding an excuse to justify taking a hand in the Suiyuan situation.

To sum up, if Chinese troops, either provincial or Central Government forces, push into the six Chahar hsien now dominated by Japan, it is believed that they may find themselves opposed by the Kuantung Army.

4. Relief of General Matsumuro.

Major General T. Matsumuro, Head of the Special Service Bureau of the Japanese Army in Peiping, has been ordered to take command of the 4th Cavalry Brigade with station at Toyohashi, Japan. He is expected to leave Peiping about the middle of December. General Matsumuro is to be succeeded by Colonel Takahu Matsui, now in command of a Japanese unit in Chinchow, Manchuria.

The opinion has been advanced in some Chinese circles that the transfer of General Matsumuro is an indication that the Japanese no longer consider Peiping as a focal point of Japanese interests in China, and that the center of gravity of Sino-Japanese relations has shifted to Nanking, thus making it unnecessary to keep a major general in Peiping as a contact man.

As pointed out in a letter from this office dated September 26, 1936 (No. 9469), General Matsumuro has been held in high esteem during the period of his tour of duty in Peiping, and it is believed that his departure will be generally regretted, except of course by those Chinese who take his relief as a possible indication that the Japanese hold on North China may be relaxing a trifle.

In connection with the stationing of Japanese officers of high rank in Peiping, nothing has been heard recently concerning Lieutenant General Y. Tatekawa, who some weeks back was spoken of as a probable addition to Japanese advisers now attached to the Hopei-Chahar Political Council (see Report No. 9477, par. 12).

5. Economic Notes.

Japanese Civilian Population of North China.

Press reports state that the Japanese civilian population of North China increased by 389 during the month of October. The numbers of Japanese, Koreans, and Formosans under the jurisdiction of the Japanese consular police, residing at various points in Hopei, are given as follows:

Peiping	4,475
Kupeikou	225
Fengtai	138
Tientsin	10,585
Tangshan	1,300
Luanchow	384
Changli	360
Shanhaikuan	1,740
Tungchow	240

The above are stated to comprise 6,337 families.

Railway Loans.

The Board of Trustees of the Boxer Indemnity Refund Commission has approved two loans, one for 450,000 pounds and one for Yuan 18,770,000, for the construction of the Hsuchen-Kweichi section of the Nanking-Kiangsi Railway (see Report No. 9493, par. 5).

The first loan is stated by Central News to be for the purchase of railway materials in England, while the second is to constitute a sinking fund for a material purchase loan of 450,000 pounds from the Jardine Engineering Company and the Hongkong-Shanghai Bank, and another loan from the Chinese Banking Syndicate to the amount of $14,000,000.

Reuter reports under date of December 2nd that the Chinese Ministry of Railways has initialled a contract with Jardine, Matheson and Company for the purchase of $4,500,000 gold worth of railway materials for the line.

Smuggling.

Smuggling continues rampant in North China, with the clandestine goods piling up in warehouses for lack of markets. The Tientsin Superintendent of Customs is reported by the Central News Agency to have stated that the customs revenue for the past few months has been just half of what it was for the same period a year ago.

Organized smuggling under the protection of ronins of Japanese citizenship is now reported rampant in Kwangtung Province, causing enormous losses of customs revenue.

In view of the big talk in some quarters that China is preparing to resist Japanese aggression, it seems strange that she does not begin by using armed force to back up her customs service, for if Japan is not taking China's life by her protection of smuggling operations, she is certainly taking the means whereby China lives.

East Hopei Regime Would Tax Oil Companies.

Reuter reports that foreign oil companies have been placed in a dilemma by an order from the East Hopei regime requiring them to pay duty on all products imported into the autonomous area from Tientsin. This would be in addition to the Chinese customs duty. The East Hopei authorities are said to have threatened to treat the goods of foreign oil companies as smuggled unless the additional tax is paid.

The report further states that East Hopei officials have verbally suggested the direct importation of oil products through Chinwangtao where they will be passed by East Hopei officials instead of the Chinese Maritime Customs, and they are said to have hinted that unless these oil companies comply with these demands, the East Hopei regime will line up with the Manchukuo oil monopoly and thus exclude the foreign companies from the market.

Development of Hainan Island Projected.

Mr. T. V. Soong, a member of the Standing Committee of the National Economic Council and a party of Kwangtung officials recently flew to Hainan Island to investigate possibilities of large scale economic developments there. Mr. Soong is said to have stated that lack of communications is the only serious bar to the economic development of the island, which is capable of producing large amounts of rubber, sugar, coffee, tea, betel nuts, camphor wood, and other tropical products, as well as cattle, pigs and poultry.

Two Sino-British Contracts Signed.

According to a Reuter despatch from Hongkong, following the recent exchange of visits between the Governor of Hongkong, Sir Andrew Caldecott, and the Canton authorities, two important Sino-Britist contracts were signed on November 27th.

The first contract, signed with Messrs. Malcolm and Company, calls for an extensive improvement of the Canton waterworks, whilst the second, made with the General Electric Company, calls for the delivery of 64 Leyland trolley buses.

A sum of approximately $2,250,000 is involved in the first contract, whilst the cost of the buses is £ 200,000.

Japanese Become Owners of Tangshan Cotton Mills.

According to the Tientsin "North China Star", the Wu Yu Spinning and Weaving Factory, a Japanese concern, recently took over the ownership of the Hua Hsin Cotton Mills at Tangshan.

China to Enforce Inheritance Tax.

The Central News Agency reports that following the enforcement of the income tax, the Central Government is now considering the introduction of the inheritance tax in the hope of putting China's taxation system on a sound basis. The Central Political Council has officially announced today that ten principles have been drawn up to govern the imposition of the new tax and that these will soon be referred to the Legislative Yuan for enactment into law.

Income Tax to be Imposed on Business Profits.

Definite measures for the imposition of income tax on business profits and on the salaries of professional men, to be enforced on January 1, 1937, are reported to have been decided upon by the Ministry of Finance.

The new tax, it is reported, will be collected in fourteen districts specified by the Ministry, each of which will be in the charge of a special commissioner with three assistants, all of whom are graduates of the Training Class of the Central Direct Tax Bureau.

Through Traffic on Canton-Hankow Railway Suspended.

Because of the many accidents recently occurring on the line, the Ministry of Railways has announced that through traffic on the Canton-Hankow Railway has been temporarily suspended.

6. Incidents.

Japanese Marines Land at Tsingtao.

In consequence of an alleged turn for the worse in the strike situation in Tsingtao, commented upon in our No. 9493, par. 6, 1000 Japanese marineswere landed in that port on December 2nd and 3rd.

Following several weeks of strikes and disturbances, nine Japanese mills declared a lockout on the second of December, throwing about 22,000 employees, mostly Chinese, out of work.

It is believed that the Japanese navy may have felt that the situation, as a result of the lockout, might get out of control by the Chinese authorities, and decided to take action for the protection of Japanese lives and property in Tsingtao. After landing, the marines took possession of local Kuomintang headquarters and arrested six prominent Chinese, all of whom were later released.

Vigorous protest against the landing of the marines and a demand for their withdrawal were lodged by the Chinese Ministry of Foreign Affairs with the Japanese Embassy in Nanking.

According to a Reuter despatch, the Japanese naval authorities on December 6th presented four demands to Admiral Shen Hung-lieh, the Mayor of Tsingtao, as follows:

1. The Japanese naval authorities to cooperate in the maintenance of peace and order until the strike is settled.
2. All subversive elements to be expelled, municipal officials involved in the strike activities to be discharged, and the local Kuomintang to be dissolved.
3. Many Japanese advisers to be engaged to carry out a friendly policy towards the Japanese.
4. The branch of the South Manchuria Railway recently established for economic exploitation in North China to be recognized.

Press reports state that these demands were refused, and the latest news indicates that the Japanese have now agreed to waive the demand for the suppression of the local Kuomintang, but insist that it must be reorganized. They are also said to be insisting upon the reorganization of the Chinese Boxing Association, on the grounds that it is a breeding ground of anti-Japanese sentiments. In addition, the Japanese are said to be pressing for the resignation of the local Director of the Bureau of Social Welfare and the Director of the Bureau of Public Safety.

The situation, which was reported as very tense immediately after the landing of the marines, is now said to have eased considerably, and it is generally believed that if the latest Japanese demands are accepted, the landing forces will probably be withdrawn.

The landing of marines in Tsingtao has been particularly disquieting to the Chinese because of apprehension lest this action presage definite steps on the part of Japan to secure control of the Tsingtao-Tsinan Railway (Kiaotsi Railway), if not of the entire province of Shantung.

Yin Ju-keng Scatters More Leaflets.

Following the visit of a Japanese plane from Tungchow on November 25th dropping leaflets issued by the East Hopei Autonomous Government in connection with the celebration of its first anniversary (see our No. 9493, par. 4), a second plane flew over Peiping a few days ago releasing another flood of hand bills, containing statements lauding the East Hopei regime for having recently adopted the old five-barred Chinese flag.

The incident is of small importance, except that any indications of unusual activity on the part of Yin Ju-keng are always disquieting to Chinese loyal to the Central Government.

A Tientsin despatch states that on December 8th the Shanhaikuan telephone and telegraph companies were seized by agents of the East Hopei regime. All employees are said to have been dismissed and the administration is to be taken over by the East Hopei regime and the Manchukuo government.

"Pink Pill" Scare in Shanghai.

Japanese authorities in the Hongkew District of Shanghai were recently reported as greatly disturbed by certain markings observed on telephone and light poles in the area. It was feared that the marks might have been made by terrorist elements to denote suitable spots at which to attack Japanese citizens.

Investigation disclosed that the marks were made by Chinese coolies to indicate areas which had been covered in the distribution of hand-bills advertising a brand of pink pills.

Demonstration of Smoke Screen Shells Carried Out in Peiping.

A demonstration of the firing of smoke screen shells was recently carried out at Coal Hill, in the northern part of Peiping, under the supervision of the Headquarters of the Pacification Commissioner of Hopei and Chahar, for the purpose, according to press reports, of testing the comparative merits of smoke bombs of local and foreign manufacture. The native product bombs are said to have been found to be almost the equal of those manufactured abroad.

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Colonel, Infantry
Military Attache

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COMMENTS ON CURRENT EVENTS

December 11-21, 1936

RECEIVED G/2 W. D. JAN 15 1937

1. Sino-Japanese Relations
2. Soviet Denies Complicity in Sian Revolt
3. Settlement of Tsingtao Cotton Mills Strike
4. Student Demonstrations in Peiping
5. Economic Notes

During the period under review, Chang Hsueh-liang startled the world by his declaration of revolt against the Central Government and his detention of Chiang Kai-shek in Sian; the Tsingtao cotton mills strike was settled; and student demonstrators disturbed Peiping.

1. Sino-Japanese Relations.

Chang Hsueh-liang's revolt and his detention of Chiang Kai-shek, discussed at length in Situation Report No. 9501, have suddenly injected so much uncertainty into the general situation that the future course of Sino-Japanese relations is very difficult to predict.

A salient feature of the present situation is the obvious opportunity which it offers Japan to take almost any steps she deems necessary in China. Unless the present crisis is speedily settled by negotiation or force of arms, with the former solution appearing the much more likely, it would appear that Japan might have considerable justification in taking the stand, if she so desired, that China is manifestly incapable of handling her own internal affairs and that the time has come for Japan to take definite steps to protect the lives and property of her citizens in this country.

Furthermore, Chang Hsueh-liang's open declaration that he favors an alliance with Soviet Russia; and his demands for cessation of the anti-Communist campaign in China, the admission of the Communists into the Kuomintang Party, and the formation of a united front against foreign aggression, all offer Japan an excellent chance to renew her recent demand for joint Sino-Japanese action against Communism, and to declare, in the event that China should not accede to such a demand, her intentions of undertaking operations against the Reds on her own account.

In this connection, the statement of Major Imai, Japanese Military Attache in Peiping, to foreign press representatives on December 16th is considered significant. In discussing the Sian revolt, Major Imai laid great stress on the necessity for joint action on the part of China and Japan against the communist menace. Major Imai's statement brings clearly to mind the recent declaration of the Kuantung Army, quoted in our No. 9500, par. 3, concerning the situation in

Suiyuan: "..., If there arises the danger of the entire territory of China being sovietized, the Kuantung Army will have no alternative but to take whatever steps it may deem appropriate."

With the power of the Central Government weakened by the removal of the strong hand of the Generalissimo, Japan is also presented with a golden opportunity to work for the complete separation of Hopei and Chahar from the control of Nanking, and at the same time to wangle Shantung, Shansi, and Suiyuan into her net. Han Fu-chu, Chairman of Shantung, has been reported as wavering in his loyalty to Chiang Kai-shek on several occasions during the past year, and it is possible that fear of Chiang's military strength is all that has held him in line. If Shantung were to go over to Japan, it would be next to impossible for Shansi to stay with the Central Government, and with Hopei, Chahar, Shantung, and Shansi under the Japanese thumb, Suiyuan could scarcely stand alone.

In spite of a Central News Agency despatch from Tokyo on December 17th to the effect that Mr. Arita, the Japanese Foreign Minister, has declared Japan will not take advantage of the present situation in China to further her own interests, Peiping is full of rumors that the Japanese Army is pressing Sung Che-yuan, Chairman of the Hopei-Chahar Political Council, to make a definite move of some kind in the immediate future. Just what are the demands of the Japanese Army, if any, at this juncture is not known, but their probable nature is easily surmised. If Sung Che-yuan were to hoist the old five-barred Chinese flag and declare Hopei and Chahar completely independent of Nanking in the next few days, few in Peiping would be much surprised.

Lieutenant General Tashiro, Commanding the Japanese Garrison in North China, and his Chief of Staff, Major General Hashimoto, have both visited Peiping recently, according to the press for important conferences with Sung Che-yuan. The last named has been reported very much under the weather during the past few days. These are disquieting signs.

An official highly placed in the Hopei-Chahar Political Council intimated to one of the staff of this office on the 18th that an important development in the North China situation was likely in the next few days.

Reports are current here that the capital of the East Hopei Government is to be moved to Tongshan in order, so it is stated, to secure a better site for the seat of government of the autonomous regime and to provide better accommodations for the Japanese garrison, which is expected to be increased.

On December 15th the Japanese forces stationed in Tientsin began six days of maneuvers along the Tientsin-Pukow Railway south of Tientsin. No special significance is attached to these maneuvers, which are thought to be of a routine nature, but observers of the situation in China can never quite rid themselves of the thought that important steps in Japanese aggression have almost always been preceded by military exercises of this nature.

If the Japanese are really pressing for decided changes in North China, it is entirely possible that the pressure might be relaxed, temporarily at least, if Chiang Kai-shek were to be released in the immediate future and return to Nanking to re-assume his former powers. Rumors were current in Shanghai on the 19th that the Generalissimo would be released on that date, but at the time of writing, no report to that effect has been received in Peiping.

A very significant statement concerning the Sian crisis was reported from Tokyo on the 20th by Reuter. According to the despatch, Mr. Arita, the Japanese Foreign Minister, has stated that Japan would not approve a compromise settlement with Chang Hsueh-liang of the present situation. This sounds very much as if Japan were determined that the Central Government should fight Chang, which would of course make it easy for Japan to offer, or force, her cooperation in the operations. And to the Chinese, Japanese cooperation in military affairs means but one thing, - domination by Japan of any areas in which her troops are stationed.

General Matsumuro, former Chief of the Special Service Bureau of the Japanese Army in Peiping, left here on December 19th for his new post in Hailar. A foreigner supposed to have close connections with the Japanese recently stated that General Matsumuro's transfer to Hailar was more in the nature of a demotion than an advancement, as the Japanese Army was not satisfied with the way he had performed his duties in Peiping.

Colonel Matsui, General Matsumuro's successor, has already arrived. At first sight he does not appear nearly so soldierly as General Matsumuro. According to a Japanese contact, he has had little experience in China and does not speak the language.

Prominent among the large crowd of Japanese and Chinese who saw General Matsumuro off at the station was a delegation of local geisha, their backs adorned with broad white ribbons bearing the slogan, "Japanese Women's Defense Society."

While it is now a purely academic question, it is interesting to speculate on what might have been the future course of Sino-Japanese relations if the general situation had not been so suddenly altered by Chang Hsueh-liang's revolt.

According to the Central News Agency despatches from Tokyo, a considerable portion of the Japanese public has been very much dissatisfied with the manner in which Mr. Arita has conducted the negotiations, particularly because of the mantle of secrecy which has been thrown about them. According to these despatches, most of the news concerning the negotiations has come from the published statements of the Chinese Foreign Office.

Dissatisfaction over the present relations with China, and disappointment over the fact that Russia recently refused to append her signature to the long-discussed Japanese-Soviet fisheries agreement have become so acute, according to Central News, that the position of the present Hirota cabinet has been seriously threatened.

As far as the Sian revolt is concerned, the attitude of the Japanese press appears to have been rather mild, although a tendency is discernible to play the news up in the most discouraging light. A Japanese-controlled Chinese paper in Tientsin came out with an extra on the evening of the 16th, stating positively that Chiang Kai-shek was dead, which would make it appear that in this case the wish was father to the thought, as no reports to this effect had been received from other quarters.

2. Soviet Denies Complicity in Sian Revolt.

Official reports from Nanking state that on December 19th, Mr. I. Spilwanek, Soviet Charge d'Affaires in Nanking, called on the Chinese Minister of Foreign Affairs to make an official denial of Soviet complicity in the Sian affair.

Mr. Spilwanek is said to have stated during his interview with the Minister of Foreign Affairs that immediately after the receipt of news regarding the Sian revolt, the Soviet Government made a clear statement of its attitude, holding that Chang Hsueh-liang's actions were detrimental to the unity and national strength of China. On behalf of the Soviet Government he declared that it was in no way concerned in the Sian affair and had had no direct or indirect relations with Chang Hsueh-liang since the latter left Mukden in 1931. Continuing, Mr. Spilwanek announced that the Soviet Government had no connection with the Chinese Communists and that it could not assume any responsibility for their actions.

This statement on the part of Mr. Spilwanek fits in very well with the opinion advanced in our current Situation Report that the Soviet was not concerned in Chang Hsueh-liang's revolt.

3. Settlement of Tsingtao Cotton Mills Strike.

While not all of the Japanese marines have as yet been withdrawn from Tsingtao, the strike situation there is now believed to have been satisfactorily settled. The terms of the final settlement between the Japanese naval authorities and the Mayor of Tsingtao, as reported by the Central News Agency, contain no drastic clauses, and refer principally to measures for the control of disturbing elements among the mill hands and the suppression of activities tending to stir up labor troubles.

All Japanese cotton spinning mills in Tsingtao opened up on the 14th, running at about eighty five per cent of full capacity. Return to full capacity operation is predicted for the near future.

Withdrawal of the Japanese landing force was begun on the 15th, but has not yet been completed, although several of the mills now have no marines stationed on their premises. It is not unlikely that the uncertainty of the present situation in China on account of the Sian revolt may delay the complete withdrawal of the landing force.

4. Student Demonstrations in Peiping.

Student demonstrations to support the textile strikes in Shanghai and Tsingtao and urge the 29th Army to resist Japan disturbed Peiping on the 12th. Extraordinary precautions, amounting to a practical declaration of martial law, were taken by local authorities to prevent the demonstrations from getting out of hand. In spite of efforts to prevent students from assembling, a crowd of between four and five thousand gathered at Coal Hill, where they were harangued by General Chin Te-chun, the Mayor of Peiping, who urged them not to cause diplomatic complications by fomenting internal disturbances. According to the press, General Sung Che-yuan, Chairman of the Hopei-Chahar Political Council, was unable to address the students on account of urgent business elsewhere.

Numbers of students from institutions outside the walls of Peiping were prevented from attending the Coal Hill meeting because of the closing of the city gates.

The Coal Hill demonstrators dispersed peacefully after the completion of the Mayor's address, but at several other points in the city students clashed with the police, resulting in a number of arrests. One student was cut by a sword in the hands of a policeman.

Orders were issued to the Peiping Municipal authorities by General Sung Che-yuan on the 16th to enforce strictly the ban on all demonstrations and public meetings, and to take special measures for the protection of the lives and property of foreign residents.

5. Economic Notes.

Effect on Exchange of Sian Revolt.

The price of the Chinese dollar has not been seriously affected thus far by the Sian revolt. To-day (December 21st) local banks are paying $3.36 local currency for one U.S. dollar, as compared with $3.33 ten days ago.

The Chinese press reports that on December 13th, Government banks in Shanghai decided to sell gold to defend the dollar in the face of the depressing news of Chang Hsueh-liang's detention of Chiang Kai-shek. Some doubt has been expressed in foreign circles as to whether the government gold reserves are sufficient to defend the dollar for a very long period in the event that it should be seriously affected. At the present time, however, it appears probable that barring unexpected developments in the situation, the Chinese dollar will hold its own for the time being at least.

Food Prices Rise in Tientsin.

Flour in Tientsin has risen to $4.60 Mex. per sack of fifty pounds, the price at this time of year being usually around $3.20. Tientsin authorities are reported seriously concerned over the rise in food prices and the manipulation of the copper exchange by speculators. During the past few days the copper exchange has risen considerably; in other words one dollar Mex. now changes into 410 coppers as compared with 454 two weeks ago.

Defunct American Oriental Banking Corporation Pays a Dividend.

The liquidator of the American Oriental Banking Corporation has mailed checks for a dividend of five per cent to depositors of the bank, which closed in May 1935 with deposits totalling $8,000,000 Mex. and cash in the vaults amounting to $700. Twenty-two and one-half per cent of deposits have now been repaid, and the liquidating officer is said to have hopes of paying additional dividends.

German Firms Grant Credit for Supply of $40,000,000 Worth of Railway Materials.

Central News reports that the Ministry of Railways has entered into a contract with a group of German firms for the supply, on credit, of $40,000,000 Mex. worth of railway materials. According to the report, three-fourths of the materials are to be used in the construction of the Hunan-Kweichow Railway and the remainder are to be employed in rebuilding the Peking-Hankow Railway bridge over the Yellow River near Chengchow, Honan.

Interest on the loan is placed at six per cent, redemption to take place within twelve years. The line itself is to be the security for the portion of the loan to be used in constructing the Hunan-Kweichow Railway. What security is given for the cost of the materials to be used on the Yellow River bridge is not stated.

Loan Signed for the Construction of the Chengtu-Chungking Railway.

According to Central News, a $34,500,000 Mex. loan contract for the construction of the Chengtu-Chungking Railway was signed in Shanghai on December 16th between the Szechwan-Kweichow Railway Corporation and a French banking syndicate, with the China Development Finance Corporation and the Banque Franco-Chinoise Pour le Commerce et l'Industrie as their respective representatives.

Of this loan, $27,500,000 is to be in materials and $7,000,000 in cash. With the Ministry of Railways as guarantor and without securities, the loan is to be repaid in fifteen years.

Total cost of the proposed railway is estimated at $54,000,000 Mex., of which the Szechwan-Kweichow Railway Corporation is to raise $20,000,000. The line as surveyed is 523 kilometers long and will require at least two and one-half years to construct. Of the $20,000,000 capital of the Szechwan-Kweichow Corporation, the China Development Finance Corporation furnished $11,000,000, the Ministry of Railways $4,500,000, and the Szechwan Provincial Government the remainder.

Mr. T. V. Soong, former Minister of Finance and present head of the National Economic Council, who signed the contract on behalf of the China Development Finance Corporation, stated that the construction and administration of the railway is to be in Chinese hands. Only two Frenchmen are to be employed as technical experts.

Collection of the Income Tax.

The Ministry of Finance is reported to have requested the Ministry of Foreign Affairs to continue negotiations with the envoys of twelve treaty countries for the payment of income tax by foreign nationals in China, beginning January 1, 1937.

The Tientsin "Ta Kung Pao" (l'Impartial") states that the Hopei-Chahar Political Council has ordered that collection of the income tax on interest derived from bank deposits is to be postponed. Collection of the tax had been set to begin on January 1, 1937. Payment of income tax on the salaries of public officials has also been postponed, according to the report.

China Largest Purchaser of U.S. Airplanes.

United Press quotes a Bureau of Commerce Report from Washington to the effect that during the first nine months of 1936, American manufacturers sold planes to foreign governments as follows: China, 112; Argentina 41; Mexico, 33; Canada, 27; Japan, 5; Russia and Spain, one each.

According to the Japanese News Agency Kokutsu, General Fu Tso-yi, Chairman of Suiyuan, has purchased four American military planes to assist in defending his province. The planes are said to have already arrived, accompanied by American pilots.

Five Japanese Power Firms to Invest in North China.

According to a Domei Agency despatch from Tokyo, the five largest Japanese power companies have organized the North China Electric Power Development Company, with a capital of 5,000,000 yen, for the purpose of investing in the Tientsin Electricity Company.

Import of Luxuries into China.

In spite of the low purchasing power of the Chinese, a surprising amount of luxuries are imported, according to figures recently released by the Ministry of Industries. The report states that during the period from January to October of this year, China imported luxuries in the following amounts: Cosmetics, $1,100,000; radio sets, $2,631,762; photographic materials, $4,278,156; musical instruments, $374,665; toys and sporting goods, $356,129; and other miscellaneous articles of amusement, $816,232.

Joseph W. Stilwell

Joseph W. Stilwell,
Colonel, Infantry
Military Attache

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COMMENTS ON CURRENT EVENTS

December 22, 1936—January 22, 1937

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1. The Year 1936 in China
2. Japanese Activities in Chengchow
3. Chengtu and Pakhoi Settlements
4. Propaganda in Hopei
5. Smuggling
6. Lin Sen on National Defense
7. New Belgian Loan
8. Suma to Washington
9. Dismal Results of Income Tax Collection
10. American Red in Sianfu
11. Japanese Protest on Appointments
12. The Tsingtao Mill Strike
13. New Italian Ambassador
14. Wang Ching-wei Returns
15. Pai Ch'ung-hsi going to Nanking
16. East Hopei Plans to Seize Salt Control
17. Foreigners Evacuated from Sianfu

1. The Year 1936 in China.

The ship of state had rough sailing during the past year, but has weathered several storms and enters 1937 with better promise of eventually making port.

Two serious rebellions took place. Kwangsi and Kwangtung in the early summer, shouting for resistance to Japan, attempted to force their policies on Nanking, but prompt action and plenty of money not only removed this threat but brought Kwangtung into the fold and considerably reduced the influence of the Kwangsi clique. Chiang Kai-shek's prestige was greatly enhanced by the solution of this problem.

Late in December occurred the detention of Chiang Kai-shek in Sian and the rebellion of the Tungpei army under Chang Hsueh-liang. With the same pretext as that used by the Southwest, Chang Hsueh-liang attempted to challenge the policy of the Central Government. After two weeks' detention, Chiang Kai-shek was released and a peaceful settlement reached. This event again enhanced the prestige and popularity of Chiang Kai-shek and showed the increasing cohesiveness of the Chinese as a nation.

Sporadic attacks on Suiyuan by irregulars in Chahar continued through the fall and early winter. These attacks were aided by supplies from Japanese sources, but all of them broke down and the Suiyuan forces succeeded in occupying Pailingmiao and Tamiao. At the end of the year it became evident that to succeed these attacks would have to be backed by considerably stronger means, probably including regular Japanese troops. The Central Government, by sending troops to Shansi and Suiyuan, showed its determination to intervene if necessary.

An attempt to adjust Sino-Japanese differences by negotiation continued through the fall and winter, but despite nine conferences between Kawagoe, the Japanese Ambassador, and Chang Chen, the Chinese Minister of Foreign Affairs, little progress was made beyond settling the Chengtu and Pakhoi murder incidents. These negotiations apparently broke down over the questions of the status of North China and joint co-operation against communism.

Smuggling continued to be a serious drain on China's revenue. About 100 million is estimated as the loss during the year. This question remains a serious one.

Communications in China were greatly improved. Besides a great increase in motor road mileage, the Hankow-Canton Railroad was finished, and air service was greatly developed.

The communist armies, after a long trek west and north through Kweichow, Szechwan and Kansu, were concentrated in the Northwest and early in the year threatened to overrun Shansi. The Central Government moved troops into Shansi, and the Reds withdrew west into Shensi. Despite rosy reports from government agencies, little was done against them during the year, and they remain a factor to be taken into account.

The most important development during the year has been the growth of national spirit. China's unification is approaching reality, and the successful passing of several crises has increased her confidence and prestige tremendously.

2. Japanese Activities in Chengchow.

The presence of Japanese agitators south of the Yellow River is disclosed by a Chinese police raid in Chengchow which unearthed a headquarters conducted by Japanese for espionage, sabotage and drug traffic. Three Japanese were arrested and incriminating documents were seized. The Japanese Consulate in Chengchow obtained the release of the Japanese subjects. Up to now similar agencies have been confined to Shantung and to territory north of the Yellow River.

The plans of these agitators, as disclosed by their papers, included the creation of an autonomous area in that part of Honan north of the Yellow River, the supply of arms to bandits in Honan, and subversive propaganda among the masses.

3. Chengtu and Pakhoi Settlements.

After three months of negotiations, the Chengtu and Pakhoi murder incidents have been settled. The settlement provided for an official apology by the Chinese Government, the punishment of responsible officials, the punishment of those found guilty of the murders, and the payment of indemnities to the families of the victims, - in other words, everything that Japan demanded.

The Chengtu case involved the murder of two Japanese newspaper men and the wounding of two others by a mob on August 24th. The families of the victims are to receive about $100,000. The Pakhoi case involved the murder of a Japanese storekeeper on September 3rd. His family is to receive $30,000.

The Chengtu case arose over agitation against the re-opening of the Japanese consulate there, - closed since the Manchurian incident. It is now announced that the consulate will be re-opened as soon as the Chinese authorities complete the necessary preparations.

4. Propaganda in Hopei.

Japanese planes are reported to have dropped propaganda leaflets issued by Yin Ju-keng of the East Hopei Government, over Tsangchow and Shihchiachuang. The gist of the matter is a call on the people to re-adopt the five-barred flag, join in with East Hopei and sever all connections with Nanking and the Kuomintang. Similar propaganda was dropped recently in Peiping.

5. Smuggling.

There is no let-up in smuggling in and out of Tientsin. Occasional small seizures of contraband are made by the customs authorities, but the question remains a very serious one. Repeated cases of assaults by ronin on customs officials, both Chinese and foreign, continue.

6. Lin Sen on National Defense.

Mr. Lin Sen, the venerable figure-head of the Chinese Republic, has again come out with a brand new thought. This time he says that "psychological national defense should be employed side by side with military defense in resisting foreign aggression."

Mr. Lin sticks to the spiritual side of the business, leaving the material side, with great common sense, to his military man, Chiang Kai-shek.

7. New Belgian Loan.

Central News reports negotiations between the Minister of Railways and the Belgian Compagnie Generalé de Chemins de Fer et de Tramways en Chine for a materiel loan of $50,000,000 to build a railway connecting Chengtu in Szechwan with Pao Chi in Shensi. The line will be 732 kilometers long and serve a district very rich in minerals and agriculture. It will hook up with the Lung-Hai Railway at Pao Chi.

Two and a half years is the estimated time for construction. The survey is reported as under way.

8. Suma to Washington.

Mr. Y. Suma, Japanese Consul-General at Nanking, has been transferred to Washington. Very few Chinese will weep over this.

9. Dismal Results of Income Tax Collection.

Figures are now available showing that the total collections from the new income tax for October, November and December of 1936 totalled about $200,000, exclusive of taxes yielded by Government bonds. Only Szechwan, Kiangsu, Chekiang, Fukien, Kwangtung, Hupeh, Anhwei, Shantung and Kiangsi, and the Shanghai municipality, did anything at all about it, and the meagre average of $20,000 per province over the period is a most disappointing result. With only this driblet squeezed out of the thousands of officials who are at the command of the government, let alone the many prosperous business men in the country, the tax will not be worth collecting unless drastic measures are taken to reduce the size of the holes in the net.

✓

10. American Red in Sianfu.

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Miss Agnes Smedley, an American Red, is in Sianfu and active in the communist agitation going on there. She broadcasts in English regularly, putting out propaganda favoring the stand of the Tungpei army.

11. Protest on Appointments.

Recently Mr. Chen Chung-fu, Chairman of the Foreign Affairs Commission of the Chahar-Hopei Council, was replaced by Mr. Chia Teh-yao, without consultation with the Japanese, who now protest that under the Ho-Umetsu agreement the Chinese had agreed to submit to them for approval the appointment and dismissal of all high officials in North China. Since nobody knows exactly what the Ho-Umetsu agreement contained, it is impossible to say whether the protest is well founded, but the assumed right of the Japanese to pass on appointments in the Chahar-Hopei Council is illuminating.

12. The Tsingtao Mill Strike.

The strike at Tsingtao has been settled, as expected with the Japanese fleet in the harbor and 800 marines ashore. The Japanese may be expected to take any necessary measures in Tsingtao particularly to retain a paramount influence there.

13. New Italian Ambassador.

Mr. Giulio Cora has been named to succeed Mr. Vincenzo Lojacono as Italian Ambassador to China.

14. Wang Ching-wei Returns.

Wang Ching-wei landed at Shanghai on January 14th, after a year in Europe, and will very probably re-appear in the government line-up. His public utterances to date indicate that he favors no action against Japan until internal disturbances are quelled (Chiang Kai-shek's policy), and that he is opposed to the Popular Front and any combination with the communists.

15. Pai Ch'ung-hsi Going to Nanking.

Pai Ch'ung-hsi is reported as about to go to Nanking. Although appointed to the Military Affairs Commission after the Southwest revolt, Pai has up to now exhibited great reluctance to move out of Kwangsi. His decision indicates the possibility of impending changes in the Nanking Government.

16. East Hopei Plans to Seize Salt Control.

Yin Ju-keng is reported as making plans to take over control of the salt industry at Lutai, Tangku, and vicinity. This industry is now carried on by several companies which are to be displaced by a monopoly corporation under the jurisdiction of the East Hopei Government. Increasingly large amounts of salt are going to Japan, and the total annual taxes on this field probably reach 10 million Mex. even now. It was to be expected that such a flourishing industry would offer considerable temptation to Yin Ju-keng and his advisers.

17. Foreigners Evacuated from Sianfu.

On January 18th 77 foreign nationals, including 15 Americans and 30 British, were evacuated from Sian. Evacuation was effected by motor bus and trucks as far as Hwahsien, where connection was made with a train running east over the Lunghai Railway.

Previous to the evacuation, assurances were repeatedly given by the military authorities in Sian that full responsibility would be assumed for the safety of foreigners, no matter what turn events might take. Central Government officials expressed the opinion that there was extremely little likelihood of any harm coming to the foreign nationals in Sian. It was felt by the American Ambassador, however, that in the event of fighting breaking out between the forces holding Sian and those of the Central Government, the risk to foreigners would be too great, particularly if there should be a change in the control of the city, in which case there would be a chance that elements leaving or entering the city might get temporarily out of control.

Negotiations for evacuation, which went on for about a week prior to the time the foreigners left, were hindered by an attitude of indifference on the part of the Central Government and an apparent desire on the part of Yang Hu-ch'eng to retain the foreigners in Sian as a possible deterrent to shelling or bombing of the city. Another difficulty was the fact that telegrams addressed to a British Army officer, who was representing his Embassy in Sian and at the same time looking out unofficially for American interests, were detained by the censor. Telegrams addressed to American missionaries were also held up.

After considerable negotiation back and forth, it was decided on January 17th to effect evacuation by air. Next day the Central Government chartered a Junkers plane of the Eurasia Company and sent it to Loyang with instructions to make as many trips as necessary between that point and Sian to evacuate all foreigners who desired to leave. Captain Barrett of this office accompanied the plane on the first trip and on arrival in Sian found that all foreigners except those who desired to remain had left by bus and truck the same morning. News that a plane was coming to take them out had arrived just as they were leaving the city, but as they had everything packed and were on the way, they decided to continue their journey. The British officer, Captain Ronald Scott of the Royal Scots Regiment, accompanied them as far as the Sian front lines east of Weinan, where he left them and returned to Sian, as it was then apparent that there would be no opposition to the foreigners entering the Central Government lines.

✓ As soon as it was learned that the foreigners had left, Captain Barrett flew back to Loyang, but returned again by plane the next day and took out a second party consisting of Captain Scott, one British missionary who had since decided to leave, and seven priests (six Italian and one Spanish), two of whom had arrived in Sian from Pingliang after the first contingent of foreigners had left. These priests stated, incidentally, that they wished to leave Sian not because of any apprehension as to the situation, but because they desired to attend the Eucharistic Congress in Manila.

Joseph W. Stilwell,

Joseph W. Stilwell
Colonel, Infantry
Military Attache

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COMMENTS ON CURRENT EVENTS

January 23—February 8, 1937

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1. Chiang Kai-shek still Sulking in his Tent.

The leave of absence for one month granted Chiang Kai-shek after his return from Sian was extended two weeks on February second. The Generalissimo left his old home town of Fenghwa on that date and proceeded to Hangchow, where he still remains. Reports from the latter place indicate that he is not a well man, but statements concerning the nature of his ailments are very vague. There have been references to a sprained back, a strained ligament, and a cracked rib, but just what is the matter is not known.

Many rumors are of course in circulation about the cause of the Generalissimo's present indisposition. One is that he was shot in the leg on the night of his detention in Sian, and another has it that in attempting to escape from Chang Hsueh-liang's soldiers he fell over a low stone wall and injured his leg very badly.

There has been considerable speculation recently as to whether Chiang Kai-shek can ever regain the dominating position which he held prior to the Sian affair. While the general impression is that his personal popularity was enhanced by his detention, there are those who feel that his prolonged absence from Nanking since his release may give those who are opposed to him a chance to curtail some of his powers. Just who, if anyone, is likely to threaten the erstwhile supremacy of the Generalissimo is difficult to say, but H. H. Kung and Ho Ying-chin are often spoken of as persons who would be glad to see his wings clipped.

While neither Kung nor Ho would appear to be strong enough personages to have much chance of eclipsing Chiang, it might be that they have sufficient backing, if not to push

Chiang off the stage, at least to maneuver him into a position less secure than he has held for some time past.

"The bigger they are, the harder they fall," probably applies more truly in China than almost anywhere else, and there are many who feel that Chiang Kai-shek has started on the down grade.

2. Singapore Defenses Tested.

Reuter reports that elaborate maneuvers to test the ability of the $50,000,000 U.S.C. defenses of Singapore to withstand attacks from land, sea, and air were begun on February first, continuing for several days. Eight thousand men, comprising army, air force, and naval personnel are said to have participated in the maneuvers, as well as every available warship on the China station.

The defenses were proved impregnable, in the reports at least, which must be a comfort to many Englishmen.

That Britannia is not perfectly easy in her mind about Hongkong as well as Singapore is indicated by the attention which those responsible for the defense of the former colony have recently been paying to the matter of food supplies for use in a possible emergency. According to the "Hongkong Telegraph," a careful survey of all food stocks has recently been carried out with a view to accumulating, if possible, sufficient supplies to last six months.

The defense of Hongkong presents a particularly knotty problem, for not only must the small, rocky island on which the city of Victoria is located be protected from naval and air attacks, but the British leased territory of Kowloon, on the mainland opposite Victoria, must be defended in the event of war. The land defense of Kowloon alone would involve holding a line twenty-five miles in length, according to a statement made recently by a British officer considered particularly well informed on the subject.

3. Diplomats.

Rumors are in circulation that Dr. W. W. Yen, former Ambassador to Russia, will shortly be appointed to the position of Minister of Foreign Affairs to succeed General Chang Chun. The rumors have been denied by Dr. Yen, who has been quoted as saying that he is too old for a responsible government post.

Dr. Yen recently visited Shanghai and Hangchow, which gave rise to reports that he had gone to consult T. V. Soong, Wang Ching-wei, and even Chiang Kai-shek concerning the possibility of taking over the portfolio of the Foreign Office.

Miss Huang An-li, who has the distinction of being the first Chinese woman to receive appointment to a diplomatic post abroad, sailed for England on January 31st to take up her duties as third secretary in the British Embassy in London.

4. Mr. Manuel Quezon Visits China.

Mr. Manuel Quezon, President of the Philippine Commonwealth, arrived in Shanghai, en route to the United States, on the 28th of January and departed the next day. He was entertained at dinner on the 28th by Dr. C. T. Wang, Ambassador-designate to the United States. On the afternoon of the same day, he was guest of honor at a reception given by Dr. H. H. Kung, Vice-Chairman of the Executive Yuan, and Madame Kung, and General Wu Te-chen, Mayor of Shanghai, and Madame Wu.

During the reception, General Wu presented Mr. Quezon with the Order of the Brilliant Jade on behalf of the Chinese Government. Dr. Kung was unable to be present at the reception.

Interviewed while in Shanghai, Mr. Quezon stressed the necessity for the maintenance of strong bonds of friendship between the Philippines and China, particularly in view of the impending relinquishment by the United States of control of the Islands.

5. More Foreigners Leave the Northwest.

Central News Reports that eighteen foreigners have left Nanchung, south Shensi, for Chengtu, and that two Catholic fathers are now on their way to Nanchung from Tienshui, in southeast Kansu. The above are in addition to the seventy-five foreigners who recently left Sian (see our No. 9506, item 17).

6. The Coming Plenary Session of the Central Executive Committee.

Reports have appeared in the Chinese press that the factions which have been opposing the orders of the Central Government in Shensi and Kansu will make a determined effort to secure a consideration of their alleged grievances at the Third Plenary Session of the Central Executive Committee of the Kuomintang Party, which is scheduled to open in Nanking on the 15th of this month. This means that if the Sian faction attains its desires, the questions of cessation of the anti-Communist campaign, the admission of the Reds as a party into the Government, the disposition of the old Northeast Army, and the formation of a united front against Japan will have to be considered by this body.

Whether the discussion of such vital questions will be taken up at the session, if it meets as scheduled, is by no means certain. The C.E.C. has met before and avoided, as far as the general public was ever informed, the discussion of matters of equal importance, and the coming session may act in a similar manner.

The Central Executive Committee is the highest organ of the Kuomintang Party which, during the present "period of political tutelage" is the Government of China. Rule of China by the Kuomintang will supposedly continue until the People's

Congress meets and adopts a constitution which will provide for some other form of government.

Convocation of the People's Congress was scheduled for last fall but was postponed, after delegates had been elected in a number of provinces, ostensibly because of the crisis brought about by the then delicate state of Sino-Japanese relations, but very possibly because the Kuomintang was not anxious to hasten the ending of the "period of political tootling."

If the coming Plenary Session considers the vital issues now facing the country, the meetings may be stormy, but it will not be surprising if there is little, if any, deliberation on important questions. The ability to face, thrash out, and decide knotty problems has never been one of the strong points of the Chinese, either as individuals or collective groups.

7. Sian Side of the "Northwest Revolt."

While the Assistant Military Attache was in Sian last month on duty in connection with the evacuation of Americans from Shensi Province, he interviewed civil and military officials high in the councils of the old Northeast Army, Yang Yu-ch'eng's troops, and the Reds. He listened to a great deal of propaganda calculated to justify Chang Hsueh-liang's detention of Chiang Kai-shek, and the recent stand of the Northwest coalition against the Central Government. The high lights of this propaganda may be listed as follows:

(1) Chiang Kai-shek was detained only after Chang Hsueh-liang had made a most sincere and earnest attempt to convince the Generalissimo of the folly of further civil war and the necessity of forming a united front against Japanese aggression.

(2) Before leaving Sian, Chiang Kai-shek definitely agreed to the most important of the points which were later published in the Central Government-controlled press as the "demands" of Chang Hsueh-liang.

(3) After his return to Nanking, Chiang Kai-shek came under the influence of the "pro-Japanese" clique, of which Ho Ying-chin is the leader, and decided to renounce his promises made to Chang Hsueh-liang. Chiang Kai-shek, however, in an effort to save some of his face, would not himself carry out the dirty work against the Sian group, but went to Fenghua and turned the task over to his subordinates.

(4) The Sian coalition do not feel nearly as much hostility toward Chiang Kai-shek as they do toward Ho Ying-chin, whom they hate because he concluded the Ho-Umezu agreement of 1934, when North China was practically sold out to Japan. (When the Assistant Military Attache pointed out that Ho was in no position to resist Japan when he made this agreement, he was informed that Ho could have at least died like a

soldier in attempting resistance. The reason for the failure of the Northeast Army to die at Mukden, Chinchow, and in Jehol Province was claimed to be direct orders not to fight the Japanese issued by Chiang Kai-shek.

(5) The Northwest coalition does not desire immediate war with Japan, but only the cessation of civil strife and the formation of a united front for war when the country is in a better state of preparation.

(6) The forces of Chang Hsueh-liang and Yang Hu-ch'eng have no sympathy with communistic principles, but are willing to ally themselves with the Chinese Reds because the latter have announced their willingness to renounce, for the present at least, all such communist teachings as the promotion of class struggle and hostility to capital for the sake of a possible chance to fight Japan.

(7) The Sian factions are asking for only a slight reorganization of the Central Government, namely the elimination of the pro-Japanese clique and the admission of parties other than the Kuomintang into the Government. Abolition of the Kuomintang is not expected.

On the basis of the points listed above and others which need not be touched upon, the Sian malcontents are able to make out what appears, on the surface at least, to be rather a plausible case. They fail to mention, however, the fact that the detention of Chiang Kai-shek and the subsequent refusal of the Northwest coalition to obey the orders of the Central Government has precipitated a serious crisis in China just at the time when she seemed to be doing very well in the way of resisting Japan.

8. Situation in Szechwan.

Because of its proximity to Shensi, the vast extent of its territory, and the size of its population, the province of Szechwan is of great importance to China in the face of the present Sian imbroglio. Liu Hsiang, Chairman of Szechwan, who has maintained control of the province with more or less success for some years, recently came out with a circular telegram which, as quoted in the press, advocated support of the Central Government.

It has been stated in circles opposed to Nanking that Liu's telegram was not quoted as he issued it, and that he really leans more to the side of the Sian factions. The general impression, however, is that Liu has no intention of joining any anti-Nanking movements at present.

Liu's position in Szechwan has recently been considerably strengthened by the elimination of Liu Wen-hui, his cousin, and for many years, his arch-enemy. Liu Wen-hui was recently appointed Chairman of Sikong, a new province which was formed out of west Szechwan in 1930. Sikong is contiguous to Tibet, and the necessity for combatting Tibetan influences will keep Liu Wen-hui busy for some time.

Liu Hsiang is said to have cancer, but reports concerning the state of health of warlords are generally unreliable.

9. Sung Che-yuan on Conduct of National Affairs.

Feeling possibly that since many other prominent Chinese have recently issued statements to the public defining their stand on questions of national importance, Sung Che-yuan, Chairman of the Hopei-Chahar Political Council, recently published a circular order to his subordinates announcing four principles for their guidance in the conduct of national affairs. The principles are as follows:

(1) Chinese should not fight Chinese.

(2) Those who invade Chinese territory and insult the Chinese people are enemies and should be resisted.

(3) There should be no closed season on bandits, Communists, and those who disturb the social order.

(4) Bandit and Communist suppression should not be considered as internecine warfare, and therefore should be exempted from the provisions of (1) above.

In an address to his 29th Army, General Sung recently set forth a three-point program for the guidance of his command:

(1) To support the unification of the country and carry out the orders of the National Government.

(2) To safeguard the three attributes of a sovereign state, viz., sovereignty, land, and the people.

(3) To exterminate Communism.

In view of Sung's precarious situation because of Japan's "special position" in North China, the principles enunciated above sound like a fairly warm-hearted expression of support for the Central Government.

As far as carrying them out is concerned, one thinks of a Chinese proverb, "To talk is easy, to carry out is hard."

10. Drug Pedlars Shot.

According to Reuter, a total of twelve Chinese have been executed for dealing in drugs since January first, when the new laws prescribing the death penalty for selling and indulging in narcotics went into effect. So far no addicts have been executed, but it is said that some have been arrested.

No subjects of Japan have been executed, or as far as is known, arrested for drug peddling, and yet they are known to be the greatest traffickers in dope in China at the present time.

It is also noteworthy that on one of the principal streets of Peiping, in a district where Chinese authority is as supreme as anywhere in the city, opium pipes, lamps and other paraphernalia are openly displayed for sale.

11. Daughter of British Ambassador Accidentally Shot.

According to Reuter, on February 2nd, Miss Elizabeth Knatchbull-Hugesson, daughter of Sir Hugh Montgomery Knatchbull-Hugesson, the British Ambassador to China, was accidentally shot in the head by a twenty-two caliber rifle in the hands of a Chinese. The accident occurred while Miss Knatchbull-Hugesson, accompanied by a Secretary of the British Embassy, was horseback riding near Nanking. According to the report, her escort was able to extract the bullet and she is now recovering satisfactorily.

Efforts to suppress the story of the accident are said to have given rise to a sensational crop of rumors in Nanking and Shanghai that the British Ambassador had been the victim of an attempted assassination.

12. Status of Aliens in China Defined.

Central News Agency has printed a Nanking despatch under date of January 30th to the effect that well informed circles in Nanking state that the Central Government will soon issue a manifesto defining the status of nationals of countries not enjoying extra-territoriality. According to the report, such persons are to be restricted in their residence to treaty ports, a provision which if put into effect would have a serious effect on the conduct of business by firms operating in the interior of China.

Persons not enjoying extra-territorial rights are also to be subjected to the same tax laws as Chinese nationals, according to the report.

13. Moscow and Nanking Rapprochement Hinted.

Transocean-Kuomin News Agency prints a despatch from Moscow to the effect that quarters close to the Soviet Foreign Minister are circulating the report that a rapprochement is imminent between Moscow and Nanking. The Soviet Ambassador to China, Mr. Bogomoloff, at present in Moscow, is said to have received instructions which would amount to a change in Russia's Far Eastern policy and result in much more friendly relations with the Nanking Government.

Moscow is said to be anxious, at any price, to prevent a reconciliation between Tokyo and Nanking.

14. Japanese Citizens in North China.

According to an announcement from the Japanese Consulate General in Tientsin, the latest figures on the Japanese subjects in North China are as follows:

Tientsin	11,289	Shanhaikwan	1,767
Tangku	369	Peiping	4,478
Tangshan	810	Tungchow	290
Luanhsien	970	Fengtai	134
Kupeikou	231	Paotingfu	7
Changli	386	Shihchiachwang	8
Chinwangtao	752	Other points	110

Total -- 21,601

Evidently the Japanese who recently created trouble in Chengchow were not counted.

15. Lin Sen Reviews Progress in Chinese Communications.

In a recent speech, Mr. Lin Sen, President of the National Government, stated that in the year 1936, 1,700 miles of new railways were constructed in China. In spite of recent advances, however, Mr. Lin urged the Chinese to put their hearts and souls into developing communications, in which China still lags behind Europe and America.

16. Economic Notes.

Smuggling. Central News reports that owing to the increased demand for commodities caused by the approach of the Chinese New Year (now known officially as the "Spring Festival"), smuggling in Tientsin has again increased.

A number of means to combat smuggling have been tried by the Chinese Customs Service, but thus far none have been successful. With the number of soldiers eating their heads off in North China, it would appear that some of them might be used to advantage in stamping out this evil. This the Chinese Government apparently lacks the courage to do.

Lanfeng-Tungchuang Light Railway. The Chairman of the Yellow River Conservancy Commission has announced that in order to facilitate conservancy measures along the middle reaches of the river, one hundred kilometers of light railway will be constructed between Lanfeng, in eastern Honan, and Tungchuang, western Shantung. According to the announcement, the Sino-British Boxer Indemnity Refund Commission has promised a loan of $1,000,000 Mex. to finance the project.

Tientsin-Peiping Bus Service. Domei announces that bus service is to be inaugurated by a Japanese company between Tientsin and Peiping. Bus service on a small scale has been maintained between the two cities for some time, but according to the report the new company will put into operation ten buses each capable of seating forty persons.

Stamp Tax Law Revised. The Stamp Tax Law has been revised by the Executive Yuan so that from now on both government-owned and foreign shipping companies will be required to affix tax stamps on bills of lading. The tax is twenty cents Mex. on each bill of lading for export cargo and double the amount for domestic cargo.

Annual revenue from the stamp tax is said to amount to about $8,000,000 Mex. Hitherto the only company exempted from the tax has been the China Merchants Steam Navigation Company, which will now have to pay tax the same as the foreign companies.

British interests have recently protested strongly against the stamp tax as an unfair discrimination against foreign shipping, as Chinese companies were not required to pay it. The present revision of the law thus appears to be an effective and, from the Chinese point of view at least, an equitable method of satisfying the British claims.

Economic Development in North China. Mr. Li Shih-hao, Chairman of the Economic Commission of the Hopei-Chahar Political Council, in a recent interview stated that there had been no negotiations with the Japanese of late concerning Sino-Japanese economic cooperation in North China. Investigation of the Lung Yen iron mines near Kalgan had been completed, according to Mr. Li, but no date has been set for the re-opening of these mines.

Lack of capital is given by Mr. Li as the cause of delay in the development of economic projects in North China.

Huitung Company Cuts Flying Time to Dairen. According to Domei, the recently inaugurated Huitung Aviation Company has speeded up its service between Tientsin and Dairen, cutting the flying time from two hours and a half to one hour and a half. It is further stated that with the arrival of two new Douglas planes which have been ordered, the flying time will be cut to one hour.

Hongkong-Shanghai Radio Telephone Service Opened. Radio telephone service between Hongkong and Shanghai was inaugurated on February first. The fee for a station-to-station call is eight dollars Mex. from the International Settlement and French Concession in Shanghai, and fifty cents less from Chinese territory.

Joseph W. Stilwell,

Joseph W. Stilwell
Colonel, Infantry
Military Attache

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COMMENTS ON CURRENT EVENTS

February 9—20, 1937

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1. Chang Hsueh-liang White-washed.
2. Lin Sen's Birthday
3. Ho Ying-ch'in on Military Unification
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1. Chang Hsueh-liang White-washed.

The National Government on February 17th restored to Chang Hsueh-liang the civil rights of which he had been deprived for five years by the special military court which tried him for his part in the Shensi rebellion. The remainder of the sentence, ten years in jail, had already been remitted at the request of Chiang Kai-shek, and this restoration of civil rights was also made at his instigation.

In heaping contumely upon traitors like Chang Hsueh-liang, it must not be forgotten that other leading lights in the Chinese Government, such as Feng Yu-hsiang, Yen Hsi-shan, T'ang Sheng-chih, etc., have also at various times been in open rebellion against the central authority.

2. Lin Sen's Birthday.

To bring home to the Chinese people the seriousness of the crisis through which China is passing, Mr. Lin Sen, Chairman of the National Government, has refused several gifts sent to him as birthday presents. This should prove, as nothing else could, how acute the crisis is considered in high official circles.

3. Ho Ying-ch'in on Military Unification.

On February 8th Ho Ying-ch'in, Minister of War, made a speech in Nanking in which he uttered more good sense than has come out of the military machine in a long time. After going over the recent events in Shensi, General Ho went on to mention a cardinal defect in the Chinese organization that up to now no one has had the brains or the courage to talk about. He called attention to the bad effect that lack of unified military control has had on the country. This lack of unified command has resulted in the existence of many independent provincial and regional units; in a wide variation in pay and allowances of different units, which in turn makes the preparation of a proper budget impossible; in a lack of standardization in arms and equipment, which in turn renders the supply problem most difficult; and in a lack

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of uniformity of training, which, of course, is most serious. With such a state of affairs, command is a difficult problem, and there remains the tendency of subordinate commanders to train their troops as personal armies rather than as national troops. This deep-rooted idea of provincialism must be broken down before the Chinese can be reasonably safe from a repetition of such affairs as the southwest and northwest revolts, and before real national unity can be accomplished.

Ho Ying-ch'in might well have continued and told his hearers that prevailing conditions can never be cured by such compromises as were reached with the Kwangsi people and with the Tungpei leaders, but he refrained from proposing any remedy. The obvious cure is the assertion of the authority of the Central Government by force, but the Chinese, in their present state of mind, seem to want unity first, even if it is only the appearance of unity, and the probabilities are that they will go on as before, compromising and buying out any opposition that arises. As stated in previous reports, this office believes that the solution by compromise is only weakening the position of the Central Government instead of strengthening it. As long as minor commanders can use rebellion to black-mail Nanking, and get away with it, there will always be someone willing to try it. Buying and selling produces the surface appearance of unity, but discipline and authority are being steadily undermined by such procedure.

4. Japanese Shanghai Garrison.

The 4th Marines report as follows on Japanese strength in Shanghai:

Japanese official strength report -	2326 officers and men
Estimate by Marine G-2	4000 to 5000 officers and men

Of these nearly 4,000 are quartered in new modern barracks at No. 10 East Kiangwan Road. These barracks are provided with ample storage facilities, garages, radio station and heliograph sets. The remaining strength is scattered in some twenty-nine small posts, of which many are not permanently occupied. Communication by wire, patrol, motor-car, etc., is maintained, or can be instituted quickly, with all sub-posts and observation stations.

The armament (estimated) of the garrison at the beginning of December 1936 was:

6 baby tanks (very light)
10 light tanks
16 to 18 armored cars
8 76 mm. field guns
8 37 mm. guns
8 72 mm. trench mortars
4 76 mm. A.A. guns
2 120 mm. howitzers
6 76 mm. field guns (in reserve)

5. Another Sword for Chiang Kai-shek.

In a moment of patriotic fervor, some of the students in Peiping recently raised $700 for a presentation sword for Chiang Kai-shek and arranged for a little limelight for themselves at Nanking at the presentation ceremony. There is a slight hitch at the moment, however, since the committee has been informed that if they attend the ceremony personally, they will all have to be clad in the uniform of a captain in the air corps. The connection between a presentation saber and a captain in the air corps is a little obscure.

6. Wang Ching-wei's Keynote Speech.

Wang Ching-wei, Chairman of the Central Political Council of the Kuomintang, made the inaugural address at the opening of the Third Plenary Session of the Fifth Central Executive Committee of the Kuomintang on February 15th at Nanking. In plain words, China being run on a single-party basis, and the party being represented by its Central Executive Committee, this session of the committee is really the supreme organ of established government, and in its meetings during the next four or five days it will decide on policies relating to party, political, economic, educational and military affairs. Once adopted in this session, these policies become the policies of China.

Mr. Wang in his speech announced as the principal issues facing the country:

1. The recovery of lost territory, and the safeguarding of areas still under Chinese jurisdiction.

2. The stabilizing of internal conditions following the settlement of the Sian affair.

3. The promotion of economic reconstruction.

There is considerable secrecy about the program the session intends to follow in its deliberations, but reports are current that resolutions have been submitted advocating:

1. Closer co-operation with friendly powers to combat Japanese aggression.

2. A liberal policy toward popular movements.

3. Adjustments in political and military administration in Northwest China in line with the desires of the Shensi rebels.

4. Early inauguration of constitutional government.

"Closer co-operation with friendly powers" indicates the idea in Mr. Wang's mind when he speaks of the "recovery of lost territory." The Chinese would much prefer to have their losses handed back to them by outside pressure than to fight for them themselves.

"A liberal policy toward popular movements" and "adjustments in political and military administration in Northwest China in line with the desires of the Shensi rebels" is apparently the method to be used in the stabilizing of internal conditions following the Shensi rebellion.

In other words, the Central Government is prepared to condone the rebellion as the price of quiet. The promotion of economic reconstruction and the early inauguration of constitutional government are two items that were to be expected; they will produce a flood of oratory, but will present little difficulty.

The session will probably be mostly concerned with smoothing down the discordant elements, finding some formula to satisfy them for the time being, and attempting to trim between the two dangers of offending Japan by playing with the communists and offending the anti-Japanese clique by taking action against them.

An important side-light on this session is the list of absentees. Sung Che-yuan cannot attend on account of his "multifarious duties." Han Fu-ch'u cannot attend because he fell off his horse and hurt his leg. Yen Hsi-shan cannot attend because he is "slightly indisposed and under medical care." Li Tsung-jen and Pai Ch'ung-hsi cannot attend because of their duties in Kwangsi. None of these excuses holds water, of course, and if China were really united, all these men would be in Nanking now.

7. New Italian Ambassador.

The Ministry of Foreign Affairs has approved the appointment of Mr. Guiliano Cora as Italian Ambassador to China, succeeding Mr. Lojacono. Mr. Cora has been serving as Minister to Chile, and previously served in Brazil and Bulgaria.

8. Hayashi on Better Sino-Japanese Relations.

Mr. Hayashi, the Japanese Premier, in his February 15th speech in the Diet emphasized the importance of improving relations between China and Japan. According to Domei, his government is going to exert itself to remove all obstacles that impede collaboration between the two countries. In order to make the Chinese like the Japanese, Mr. Hayashi's government is apparently going to insist on the eradication of all anti-Japanese activities in China and the settlement of all pending questions. Then, with everything arranged as the Japanese want it, there should be no reason why the two nations cannot be the best of friends.

9. Economic Notes.

General Business Conditions.

Although the Central Government officially abolished the lunar calendar several years ago, many millions of Chinese continue to reckon time by this system, and the majority of merchants still cast up their accounts just before the Chinese New Year's festival. This is called "figuring the big account," and if business for the previous year has been good, bonuses are distributed to the clerks and apprentices and the festival is celebrated with general rejoicing.

The Japanese domination of North China, while not a blessing in many ways, has at least brought peace and order to a great part of the area, as a result of which business in this part of the country, in spite of the smuggling evil, has been generally good for the past twelve months. Consequently, the festival of the Chinese New Year, which began on February 11th, has been celebrated with great enthusiasm, more so than for a number of years past according to old residents of Peking and Tientsin.

For the first time in several years, the police of Peking and Tientsin made no effort to interfere with the sale and use of fire-crackers, and it is reported that over $50,000 Mex. worth of these goods were sold in the latter port alone during the festival. Stocks in Tientsin are said to have been exhausted, as merchants did not know until a week before the New Year that no restrictions would be placed on the sale of fireworks.

Indicative of generally good business in North China, reports from Tientsin state that during the period from June to December of last year, 1146 new shops were opened and only 389 were closed. The fur business in Tientsin, reflecting better conditions in the United States, has been enjoying an unprecedented boom, and dealers are reported unable to take care of the unusually large volume of orders.

Not only in North China, but throughout the rest of the country, business has shown an improvement over last years, as is indicated in a United Press despatch from Washington, D.C., to the effect that Chinese exports to the United States in 1936 increased by over $10,000,000 U.S.C., and Chinese imports from the United States amounted to $46,819,000 U.S.C., as compared to $38,153,000 in 1935.

Bad Effect of Civil War on Lunghai Railway.

In contrast with reports of generally favorable business conditions elsewhere in China, comes the news from Honan and Shensi that since the detention of Chiang Kai-shek in Sian on the 12th of December, 1936 (the Chinese in Sian refer to this as "the double twelfth"), the Lunghai Railway has sustained damage to tracks, bridges, and other property to the amount of $3,000,000 Mex., and has lost over $10,000,000 Mex. in freight and passenger revenue.

The Lunghai Railway recently purchased enough new rolling stock in Belgium to put into operation three new "green trains," the equipment of which would compare favorably with that of almost any other railway in the world. According to a statement recently made by an official of the Belgian Embassy in Peiping, this new rolling stock has not been paid for.

Direct Shanghai-Canton Rail Service Planned.

According to a statement recently issued by the Ministry of Industry, the Chekiang-Kiangsi railway has decided to spend about $6,000,000 in replacing the light rails on the 350 kilometer section between Hangchow and Yushan so that by next June, when the Nanchang-Changsha link is finished, through traffic can be opened between Canton and Shanghai. According to the statement, the rails will be purchased from Czecho-slovakia on credit, for which the railway will issue promissory notes for repayment with accrued interest within seven years. The Ministry of Railways will guarantee the payments.

Rise of Chinese Railway Bonds.

"The "Chinese Economic Journal and Bulletin," a government publication, states that a steady rise in the value of Chinese railway bonds in the international market during the past several months indicates the success of the Ministry of Railways in rehabilitating Chinese railway loans. According to statistics compiled by the Ministry, the bonds of the Tientsin-Pukow, Taokow-Chinghwa, Lunghai, and Canton-Kowloon railways have risen by 30%, 40-50%, 12% and 10% respectively during the current year following the promulgation of rehabilitation measures for the service of these loans.

Tientsin-Dairen Air Line.

The Hui Tung Company has announced that its air service between Tientsin and Dairen will be inaugurated on March 1st. Passengers, mail, and freight will be carried, and at Dairen connection will be made with the Dairen-Fukuoka line. The flight from Tientsin to Dairen will be made in two hours, which contrasts favorably with the twenty-four hour boat trip, or the equally long trip by rail via Mukden. The opening of this line means another step in the progress of economic relations between Japan and North China.

Lien Yun Harbor Finished.

Central News announces the completion of the harbor work at Lien Yun Kang, the new port east of Haichow at the termination of the Lunghai Railroad on the coast. The work has been done by a Dutch company, The Netherlands Harbor Works Company of Amsterdam, and the installation is up-to-date in every respect. The shore installations, - a large reservoir four miles back of the town in the hills, a large coal-loading apparatus capable of handling four hundred tons an hour, and an electric power plant, are well under way, and with their completion the Lunghai Railroad will have a relatively small but very useful and modern outlet to the sea.

Salt Revenue for 1936.

The tremendous importance of the salt tax to China is indicated by a report of the Ministry of Finance stating that during 1936 the sum of $250,433,000 was collected from this source.

Four important foreign loans, the Hu-kuang, "Crisp," Anglo-French, and Vickers-Marconi, are secured by the revenue from the salt tax, and according to this report the obligations of interest payments and amortization on these loans was fully met in 1936. The total of these loans is reported at $14,327,750.54 Mex.

Joseph W. Stilwell,

Joseph W. Stilwell
Colonel, Infantry
Military Attache

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COMMENTS ON CURRENT EVENTS

February 21 - March 11, 1937

RECEIVED G/2 W. D. APR 8 1937

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1. Plenary Session of the CEC of the Kuomintang.

The Third Plenary Session has now passed into history. As expected, the bulk of its proceedings consisted of eulogies of party policies, self-congratulations on progress and accomplishments, and assurances to the people that the government was in capable hands. A flood of resolutions was received on all possible subjects - among others, one for improving the condition of table salt - and duly pigeon-holed. Sufficient steam having been let off, everything goes on as before.

There was some worry before the session opened as to how the communist question would be handled. It was generally felt that any decided change in the Central Government's policy of suppressing the Reds would cause undesirable reactions on the part of the Japanese. But it was also feared that there might be enough sentiment in favor of their announced aims to embarrass the Nanking authorities. However, the difficulty has been avoided without unfavorable comment. Madame Sun Yat-sen proposed an alliance with the Soviets and the formation of a popular front with the ultimate object of war with Japan. The Kwangsi leaders, still fulminating from a safe distance in the remote Southwest, called for immediate war on Japan, but the absence of Li Tsung-jen and Pai Ch'ung-hsi from the session took all the wind out of their sails. Feng Yu-hsiang proposed a "re-orientation of China's policy" as to the Reds, not stating what it was to be. As announced, however, the Central Government's policy is still a stiff one in this regard. Unless the Communists repent, obey orders, and behave like good citizens, there is to be no "reconciliation." The conditions for reconciliation are:

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1. Abolition of the Chinese Red Army and the unification of command of the nation's armed forces.

2. Unification of administrative power in the hands of the National Government and the dissolution of the so-called "Chinese Soviet Republic" and other organizations detrimental to the Government and to unity.

3. Absolute cessation of communistic propaganda, which is diametrically opposed to the Three People's Principles.

4. Stoppage of the class struggle, which splits society into antagonistic classes and then involves their killing each other.

This is pretty definite and clear cut, and shows that the Central Government is fairly sure of its power in the Northwest and its backing of public opinion. The announcement should satisfy the Japanese, and remove any cause for immediate action on their part.

As a matter of fact, it seems clear now that the action of the Reds during the Shensi revolt was more commendable than that of Chang Hsueh-liang's rabble. The Reds opposed the kidnapping of Chiang Kai-shek, and they also opposed the actions of Yang Hu-ch'eng in his revolt. They do not any longer shout for land reform and the class struggle but rather for "national revolution," which appears to be a reorganization of the government to include all factions. They talk about war with Japan, but principally to enlist popular support, - they do not want such a war any more than Chang Hsueh-liang did, or than Li Tsung-jen and Pai Ch'ung-hsi did.

The action of the Plenary Session on communism spells defeat for the opponents of the government who have been talking war with Japan and co-operation with the Reds. A long manifesto published upon adjournment emphasizes the necessity of continuing a peaceful policy towards Japan and of exterminating the communists in China. The foreign policy of China is approved without change; this policy is based on (1) the manifesto of the 5th National Congress of the Kuomintang held in November 1935, in which it was stated that "We shall not forsake peace until there is no hope for peace. If our country is driven to the last extremity, thus making sacrifice inevitable, we shall be determined to make sacrifice," and (2) the amplification of this statement in the Second Plenary Session, in which it was stated that "In our external relations we shall not tolerate any aggression against our territorial sovereignty. Should any act of aggression against Chinese territory arise, should any political means fail to frustrate such act, and should the fundamental existence of the nation be endangered, we should be ready to make our last sacrifice without the least hesitation."

The domestic policy is announced as "unity through peace, to meet the demands of national defense and to lay the foundation for lasting domestic tranquillity and order." The manifesto then goes on to describe the difference between "unity through peace" and"cessation of civil war," the immediate object of the former being to concentrate the national strength to tide over the present crisis, and the meaning of the latter being that differences of opinion must be settled by discussion and not by force. (The meaning here is apparently that factions should not use the cry of "Let civil war cease" as a pretext for increasing their own power and undermining that of the Central Government.)

The session named November 12, 1937 as the date for the meeting of the People's National Assembly, and put the blame for its postponement from last year on the failure of certain localities to complete the election of delegates. At this meeting of the National Assembly, if it occurs, a constitution is to be adopted.

In the field of economic reconstruction the manifesto, in high-sounding phrases, states that "China must seek to solve her economic problems realistically and not by high-sounding phrases and empty theories." The solution is declared to lie in the "equalization of land and the restriction of private capital," but goes on to say that "China should seek to develop state capital and at the same time give due protection to private capital."

Economic reconstruction is aimed at improving the lot of the farmer, - by remission or reduction of taxes; establishment of farmers' banks, co-operatives, and special bodies for facilitating transportation and distribution; instruction in improved technique, etc., etc. These measures will, it is hoped, increase the farmers' income as a prerequisite to the policy that those who till the land should own it.

In addition to concern about the farmers' condition, the Kuomintang goes on record as desiring to protect light industry, so far the only fruit of years of effort on the part of the native industrialists, which would be ruined by the appearance of a spirit of class struggle. If governmental control should become necessary in this type of industry, it is to be exercised only for purposes of protection and development. In those industries which by their nature can best be run by the government, or those beyond the capacity of private capital, the Central Government will take steps to develop capital for their operation.

The manifesto concludes with generalizations, such as that "all measures adopted must meet the requirements of national defense and the people's livelihood," that the idea "of the people, for the people, and by the people" must be realized, and that in particular "the foolish theory of the class struggle can never be tolerated because it would lead to social chaos."

II. On the face of it, all this is very smooth and placid, but behind the scenes there is another drama going on.

Take the announced terms for reconciliation with the Communists: (1) abolition of the Red army, (2) abolition of the Chinese Soviet Government, (3) cessation of propaganda, (4) renunciation of the class struggle. The Communists sent a telegram to the Plenary Session giving their terms for a truce. These were: (1) the Chinese Communist Party will no longer attempt to overthrow the Central Government by force, (2) the Soviet Government in China will be re-named the Special Area Government of the Chinese Republic, and the Red Army will be re-named the National Revolutionary Army, under the direct control of the Central Government and the Military Affairs Committee, (3) the Communists will discontinue confiscation of land from land-owners. These terms to be conditional upon the cessation of civil war, the concentration of resources against foreign aggression, the release of political offenders, freedom of speech, and the adoption of a democratic policy. The change of name could well meet the condition for the "abolition" of the Red Army and its Soviet Government, the discontinuance of land-confiscation that for the renunciation of the class struggle, and propaganda can always be disavowed. The other conditions, in substance, have all since been publicly adopted and explained by Chiang Kai-shek himself.

It must not be forgotten that the Reds put Chiang Kai-shek under great obligations by their action in opposing his kidnapping and using their influence for his release. Such an action lays heavy responsibilities on the Chinese mind, and this, added to the apparent change of heart of the Reds, the great difficulties the Central Government has met in operating against them, the withdrawal of a large number of Nationalist troops from Shensi, and the withdrawal of the Reds to Kansu and northern Shensi, are strong indications that some arrangement satisfactory to the Reds has already been made. We have only to wait and see whether the Central Government really does anything about its announced intention to exterminate communism or, as is more likely, simply leaves the situation as it is and floats along till fall when the National Assembly is scheduled to meet, hoping that in the meantime something will happen to give them a lead.

Following the communist proposal, another was submitted to the Plenary Session on February 18th by Madame Sun Yat-sen calling for immediate discussion of the "Three Principles" of Sun Yat-sen, - alliance with the Soviet Union, alliance with the Communists, and help for the workers and peasants. Madame Sun accompanied the proposal with a personal statement containing a lot of nonsense about China's great strength, about how China's soldiers have already saved Suiyuan from the aggressors and how they can save the nation, about Japan's economic and financial weakness, the opposition of the Japanese people to war, and the inferior numerical strength of Japan's army and its technical backwardness. The proposal and statement were of course put in the proper pigeonhole, but the proposal for the discussion of the three principles has some significance if it is true, as reported, that it was signed by Feng Yu-hsiang and Sun Fo, among others.

By and large there are indications that the true state of affairs is not accurately shown by the session's closing manifesto, and one of these is a statement by Chiang Kai-shek on February 23rd in which he found it advisable to give reasons for the rejection of the popular front idea (on the ground that it would open the way for opportunists and dissensionists to bore into the Central Government), to explain that the Kuomintang had always followed the policy of inviting capable non-members to participate in the government, to re-affirm that freedom of speech would be continued within well-defined limits, and to promise the liberation of political prisoners if they sincerely repented, without binding himself to any general amnesty that might be prejudicial to law and order.

III. In a few words, the Kuomintang will fight for its position of authority and its accompanying perquisites of office, trimming where it has to, compromising when it must, but determined to hold the reins to the exclusion of all other factions.

2. Kwangsi Leaders Regularized.

Li Tsung-jen and Pai Ch'ung-hsi, the stormy petrels of Kwangsi, have received appointments from the Central Government as Commander-in-Chief and Deputy Commander-in-Chief of the 5th Route Army (Kwangsi regular troops). The fact that less than a year ago they were in open rebellion does not seem to count much in China. Already there are rumors that Chang Hsueh-liang, the front for the Sian rebellion of December 1936, is to get an important military post, and although such antics are incomprehensible to westerners, the Chinese would probably acquiesce in the matter.

3. Italian Cut-ups Active in Shanghai.

The Italians continue to feel their oats. Taking umbrage at fancied slights to their fatherland in a moving picture called "Abyssinia," a party of about forty Italian sailors and civilians staged a riot in the Isis Theater in Shanghai and stole the film. Up to date a protest by the Chinese Government has produced no result except a denial from the Italian Embassy that the rioters were Italian marines.

4. Manchukuo Colonization - Kwantung Army's 20-Year Plan.

The Kwantung Army has a plan for moving a million Japanese families - about five million people - to Manchukuo in twenty years at an estimated cost of ¥1,800,000,000. The plan is based on an estimated total population of Manchukuo of fifty million in twenty years, of which it is hoped that ten per cent will be Japanese. The flow of coolie immigration from North China is to be shut off, so that Japanese subjects can get desirable land before it is all gone. The influx of Chinese coolies is already under control, and the problem of the large Korean immigration is also being considered.

Immigrants will be classified as A and B, according to the amount of subsidy granted; the A class, with a large subsidy, being under the control of the Ministry of Overseas Affairs, and the B class being free. Four stages are laid out, during which 100,000, 200,000, 300,000 and 400,000 families respectively are to be moved. The A class family gets ¥1,000 for travelling expenses, tools, housing, etc., while the B class gets travel expenses only. The Manchurian Colonization Company will make loans at five per cent up to ¥2,000 per family, redeemable in twenty-five or thirty years if made on houses or land, and in ten years if invested in floating capital, both loans carrying a five-year deferment.

The Japanese Government will supply ¥556,000,000 and the remainder is to come from various agencies, - the Manchukuo Government, the Manchukuo Colonization Company, etc. The financing does not seem definitely worked out. It is expected that in the first two years 200 million yen will be needed, in the second 280 million, in the third 540 million, and in the fourth 680 million.

This plan was adopted at a cabinet meeting on August 26, 1936, and preparations are now under way to start the first 10,000 families. According to statements by Japanese military officers, the bulk of this new population will be settled in Northeast Manchuria.

5. Another Manifestation of the "Southward Advance."

Japan has now shown her interest in the Dutch East Indies openly. On February 28th a Minseito delegate in the Japanese Diet proposed a non-aggression pact between The Netherlands and Japan. It was also proposed that the matter of a lease for Japan in Dutch New Guinea be discussed with The Netherlands. The Dutch will reject the proposal, of course, but it is very evident that Japan's aspirations in the East Indies are a cause of great concern for them.

6. Japanese Army Changes.

In the regular March change of station, Lt. General Itagaki, Chief of Staff of the Kwantung Army, goes to Kumamoto in Japan to command the 5th Division, but the transfer does not necessarily indicate any change of heart, as his successor will be Lt. General Tojo, now commanding the gendarmerie of the Kwantung Army, and so presumably well indoctrinated with their ideas of economics and foreign policy.

7. Another Railway Scheme.

China's present 8,000 kilometers of railroad are to be doubled in five years, according to a scheme announced by the Minister of Railways, Chiang Kia-ngau. The present net is considered inadequate, - there is no rail communication between Anhwei and Kiangsi, Fukien and Kiangsi, Kwangtung and Kiangsi, Hupeh and Kiangsi, Chekiang and Fukien, Kwangtung and Fukien, Kwangtung and Kwangsi, Hunan and Kweichow, Kwangsi and Kweichow, Yunnan and Kweichow, Szechwan and Shensi, Szechwan and Hupeh. Under the new scheme, all these provinces are to be linked up, with a planned average of 1,700 kilometers of new construction per year during the period.

If this program is carried out, it will mark a tremendous step forward for China. Besides making control and communication much easier, thus improving national defense, it will be a big factor in the economical development of some of China's most backward areas.

8. New Minister of Foreign Affairs and Communications.

On March 3rd the resignation of General Chang Chun as Minister of Foreign Affairs was accepted, and Mr. Wang Chung-hui, China's eminent jurist, was appointed to succeed him.

At the same time the resignation of Dr. Ku Men-yu as Minister of Communications was accepted, and Mr. Yu Fei-peng, the Acting Minister, was appointed in his place.

The new Minister of Foreign Affairs on March 8th outlined his policy in a statement to the press, substantially as follows:

> "The foreign policy of China has on various occasions been clearly stated by the Government and by the President of the Executive Yuan, Marshal Chiang Kai-shek. Its fundamental principles are the maintenance of the integrity of China's territory and sovereign rights and the conduct of international relations on the basis of equality and reciprocity. Under the guidance of these principles, all possible efforts will be made in an atmosphere of peace to further international comity and friendship. Political understanding and economic cooperation, if they are to serve as means of consolidating relations between nations, must be based on the principle of mutual benefit. Such has been the fixed policy of the Chinese Government which is in harmony with national diplomacy.
>
> "In accepting the portfolio of Foreign Minister, I am fully conscious of the heavy responsibility that attaches to it. Guided by the fixed policy of the Government and the principles of international justice, I shall endeavor, in strict accordance with diplomatic usage, to secure the realization of the aspirations of the Chinese Government and the development, through international cooperation, of the relations between China and foreign Powers to the benefit of all concerned."

9. Japanese Economic Mission to China.

Another indication of changing Japanese policy toward China is the economic mission due here soon. Mr. Kenji Kodama, the head of this mission, in an interview with the Central News representative in Tokyo on March 3rd said that the mission "had no evil intentions in proposing economic cooperation" and that the Japanese were "going to China to shake hands with the Chinese people." It remains to be seen whether the Japanese will get farther with the glad hand than they did with the mailed fist.

10. Smuggling.

The smuggling situation is unchanged. Japanese and Korean ronins continue to attack and beat up Customs officers, run cargoes where they please, and raid godowns where the preventive service has stored goods that have been seized. This is the worst spectacle in China from two stand-points, - one that a first-class modern power, such as Japan claims to be, should countenance such skulduggery, and the other, that any nation with claims to sovereignty, even though she be as weak as China is, should allow it to go on without a serious effort to stop it. All the Chinese protestations about what they are going to do to Japan some day fall flat before this open proof that the sovereignty of China can be openly, insolently, and continuously flouted with impunity. The Chinese have the means to stop it if they dared, but they are afraid the assertion of their rights will cause complications with Japan, a situation they are trying to avoid at all costs.

As an indication of how openly the smuggling business is conducted, and how keen the competition is becoming among firms engaged in it, there is added below a copy of an advertisement circulated in Tientsin:

> "Don't you aware that if you import your cargo through Chitung district via Dairen you can save three quarters on the import duty as compared with the Tientsin Maritime Customs? In other words, it means to save you considerably on the cost of goods, and, consequently, it will enable you to meet the competitive prices in this market.
>
> "We are the only Japanese transporters which you may entrust for bringing such cargo as from Dairen to Tientsin. With regard to the charges, we will charge you the net expenses between Dairen and Tientsin besides a small handling fee. Our Dairen office is always ready to render you such services as may be favoured.
>
> "If you have anything to ship from Dairen to Tientsin or from here to outports, please ring up this office. We will immediately send our representative to your office to give you the accurate estimate.
>
> "Looking forward to be of service to you in your problems."

It is significant that in spite of all the recent gestures and indications of good-will on the part of Japan, there is as yet nothing to show any desire on her part to put a stop to this illicit trade.

11. Legal Tender Now in Circulation.

According to Central News, up to the end of last February the total amount of legal tender notes issued by the three Government banks was $1,163,206,057.80, secured against a cash reserve of $736,534,443.82. The figures for February of last year were $700,046,382.42 and $505,145,398.37 respectively.

Of the total now in circulation, $357,444,141 was issued by the Central Bank of China, $504,103,822.30 by the Bank of China, and $301,658,094.50 by the Bank of Communications.

12. Kuomintang Leader in Trouble.

Liu Lu-yin, from 1928 to 1931 head of the Kuomintang Publicity Department, and since 1929 a member of the Central Executive Committee, was arrested in Shanghai on February 24th and charged with complicity in the murder of the Vice-Minister of Foreign Affairs, Tang Yu-jen, on December 25, 1935, and also in the murder of the Hupeh Governor, Yang Yung-tai, in Hankow last year.

Liu belonged to the Canton faction of the Kuomintang and was formerly closely associated with Hu Han-min, who died recently. He is alleged to be the leader of two secret reactionary societies, the "Revolutionary Army Group" and the "China Special Service Corps." He has been transferred to Hankow to stand trial in a district court, on a charge of murder.

13. Chu Pei-teh's Successor.

Hsu Yung-chang, Yen Hsi-shan's man, and until recently Bandit Suppression Commander for Shansi, has been appointed to succeed Chu Pei-teh, recently deceased, on the Military Affairs Committee. This is a positive indication of the influence that Yen still wields in Nanking.

14. Satoh's Statement.

Mr. N. Satoh, the new Japanese Minister of Foreign Affairs, on March 8th in an unofficial statement to the Japanese press, said in substance that:

> "The fundamental solution of Sino-Japanese problems constitutes a cardinal point in Japan's future diplomacy.
>
> "A successful readjustment of relations with China or otherwise will not only seriously affect Japan's relations with the Soviet Union, but also with Great Britain and the United States.
>
> "The so-called Pacific Problem and Disarmament Problem are inseparably linked with questions regarding China.
>
> "If Sino-Japanese relations could be readjusted, friction between Japan and other powers might be considerably minimized."

There was a generally favorable reaction to the statement, which has been taken to indicate that the Japanese Government will seriously and in good faith tackle these problems. At the same time it must not be forgotten that General Hayashi, the Premier, has stated that Japan has special rights and interests in North China, that the special areas in existence there grew up for certain reasons in accordance with the desires of the Japanese Government, and that if any change in the status of these areas is contemplated by the Chinese Government, Japan is prepared to take measures to protect fully her interests.

Joseph W. Stilwell,

Joseph W. Stilwell
Colonel, Infantry
Military Attache

Distribution:
6 MID
2 Embassy
1 Tientsin
1 Manila
1 Tokyo
1 Guard
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COMMENTS ON CURRENT EVENTS

March 11 - 25, 1937

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11. Economic Notes

1. Sino-Japanese Relations.

(a) The Kodama Economic Mission.

The Kodama Economic Mission to China (see No. 9528, par. 9), concerning which hopes were entertained that it might be able to effect some concrete improvement in Sino-Japanese relations, political as well as economic, has concluded its activities and most of the members have returned to Japan. The results accomplished by the mission, as far as can be determined at present, have been disappointing.

Besides its head, Mr. Kenji Kodama, former President of the Yokohama Specie Bank, the personnel of the mission included Mr. Keizabure Kato, Governor of the Bank of Chosen; Mr. Nobora Ohtani, President of the Nippon Yusen Kaisha; Mr. Seijiro Miyajima, President of the Nisshin Cotton Spinning Company, and other leading Japanese business men.

The announced purpose of the mission, in addition to returning the visit of the Chinese Economic Mission to Japan, led by Mr. Wu Ting-chang in 1935, was to attend the general meeting of the Sino-Japanese Trade Association which opened in Shanghai on March 18th. According to Domei News Agency, Mr. Kodama also announced before leaving for China that he hoped the mission would make efforts to effect a Sino-Japanese rapprochement "on a basis of equality, reciprocity, and respect for the territorial sovereignty of China."

The mission arrived in Shanghai on March 14th, proceeded to Nanking on the 15th, and returned to Shanghai on the 17th. The group was royally entertained both in Shanghai and Nanking, the hosts in the latter city including the Japanese Ambassador, Mr. Shigiru Kawagoe; Dr. H. H. Kung, Minister of Finance; Dr. Wang Chung-hui, Minister of Foreign Affairs, and the Ministers of Communications, Railways, and

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Industries. The mission called upon Chiang Kai-shek, who addressed its membership at length. In his remarks he stressed the necessity for Sino-Japanese good neighborliness and made friendly references to his own stay in Japan. A somewhat pointed allusion was made in the course of his remarks to an annotated copy of the "Analects" of Confucius, presented to him by a member of the Japanese nobility, in which was underlined the quotation, "Do not do unto others what you would not have others do unto you." The Generalissimo stated that in his opinion this quotation contained the essence of Oriental civilization.

Chiang also said he would like to suggest as a motto for the mission, "Be benevolent and charitable." Some Japanese newspapers, commenting later on the remarks, stated that they were equivalent to asking Japan to repent of her past actions toward China.

After returning to Shanghai, the mission held conferences, said to be non-political in nature, with various Chinese commercial leaders. It was reported that an urgent appeal was addressed to the mission by representatives of the Chinese sugar merchants to suppress smuggling in North China and other parts of the country. Further reports stated that the mission would visit North China to investigate economic conditions in that area, as well as to gain first hand information concerning smuggling.

Whether or not the mission really intended to visit North China as a body is not known, but Reuter reported on the 19th that it had been warned by the Japanese military not to take any such action. According to the report, as the personnel of the mission was considered too liberal, the Japanese Army did not desire them to investigate the smuggling situation.

At the opening session of the Sino-Japanese Trade Association on March 18th, Mr. Chow Tso-min, the Chinese Chairman of the Association, sounded the keynote of the meeting as far as the Chinese side was concerned by stating that the poor condition of trade between China and Japan was largely due to political obstacles, and that before any measures for improvement of the economic situation could be considered, political difficulties between the two countries should be settled.

Similar sentiments were expressed at the same time in an interview given to the press by Dr. Sun Fo, President of the Legislative Yuan, who stated that removal of political obstacles would have to be accomplished before economic cooperation could be realized. Dr. Sun mentioned specifically the situation in East Hopei, North Chahar, and the smuggling problem as hindrances to economic rapprochement.

Wang Ching-wei, President of the Central Political Council, also sounded a similar note to the press, stating that while efforts at economic cooperation, such as were being exerted by the mission, were all well and good, China should continue her preparedness against further alien encroachments.

The insistence of Mr. Chow Tso-min and others upon the settlement of political differences as a prerequisite to economic cooperation probably prevented the mission from accomplishing anything definite along the latter line. Inasmuch as the mission probably had no authority to consider any questions of a political nature, it is difficult to see just what Mr. Chow expected to accomplish by his stand, except possibly to make clear that China desires no economic cooperation with Japan unless she can receive treatment in political matters on a basis of equality and respect for her territorial and sovereign rights.

Reports from the Japanese press indicate that in military and ultra-conservative circles, Mr. Chow's speech was unfavorably received, but in more liberal quarters the reaction was more favorable.

The meetings of the Sino-Japanese Trade Association closed on the 21st, and most of the members of the Economic Mission have returned to Japan. As far as is known only one will visit North China, and this will be in a private capacity. According to reports, the only concrete action taken by the Association was to adopt two resolutions, - one providing for research work by the headquarters of the Association in Tokyo and Shanghai; and the other urging members to submit their views on the work and affairs of the organization.

The general reaction of the Japanese press to the visit of the mission, as reported in this country, has been to consider it as a failure, the reason for which was the "selfish" attitude of the Chinese in demanding that their political rights be respected. According to the Shanghai correspondent of the Tokyo "Asahi," as quoted by the Central News Agency, the members of the mission have come to the realization that nothing can be done as far as Sino-Japanese relations are concerned, except to maintain the "*status quo*," and that there is no field for Japanese activity in China except in the north. In the Yangtze Valley, particularly, so the report states, Great Britain's superior trade position offers little hope to Japanese business enterprise. The "Asahi" further quotes Mr. Seijiro Miyajima, President of the Nisshin Cotton Spinning Company, to the effect that the mission accomplished nothing because both the Chinese and the Japanese expressed their dissatisfaction, but neither side thought anything of discussing matters in a dispassionate manner with a view to bringing about collaboration.

While it is impossible to perceive any concrete results of the visit of the mission at this time, it is difficult to believe that some good was not accomplished by a frank discussion of the views of both China and Japan. The fact that a section of public opinion in Japan appeared to react favorably to the Chinese insistence that settlement of political issues must precede efforts for economic rapprochement is in itself encouraging to those who hope that the differences between the two countries can eventually be settled by peaceful means.

(b) Will Japan Change Her Policy Toward China?

As noted in our No. 9528, par. 14, Mr. Naohtake Sato, the newly appointed Japanese Foreign Minister, came out with a statement on the 8th of March indicating that he favored a policy toward China which would have more respect for the rights of the latter country.

Mr. Sato was quoted at the time as saying that Sino-Japanese diplomatic dealings had hitherto never been conducted on a basis of equality and he proposed to start anew for the fundamental readjustment of relations between the two countries. He called attention to the fact that the superiority complex of the Japanese people had been the greatest obstacle toward securing a real and fundamental formula for co-operation between the two countries, and stated that as long as such an attitude was maintained there would be little hope for Sino-Japanese negotiations to be continued satisfactorily.

Continuing, Mr. Sato stated that sufficient consideration must be given to China's demands and requests which are vital to her interests, while at the same time the views and standpoints of Japan must be painstakingly explained. In other words, according to Mr. Sato, Japan desires to maintain a conciliatory spirit within the scope of not sacrificing her own interests. Concluding, Mr. Sato intimated that Japan would be prepared to modify her stand on certain questions in order to further Sino-Japanese rapprochement.

Apparently backing up this conciliatory stand, Mr. Sato was recently quoted by Domei as having stated in the Lower House of the Japanese Diet that Japan respected the independent position of China and Mongolia, and that he hoped negotiations with China would progress on a basis of full understanding, China expressing her apprehensions, and Japan elucidating her claims. He further stated that as the China-Japanese situation had reached a deadlock, the former declining to consider Japan's minimum desires, Japan could do nothing but await a change in the Chinese attitude.

Also under the date of March 12th, the Havas News Agency quoted an interview stated to have been given by Mr. Sato to a Paris weekly, A Nous La Liberté, in which he stated the problem of North China would have to be settled without humiliating the Chinese.

Havas also quoted Mr. Sato to the effect that there would be no war with Russia within the next ten years at least; that Japan would strive to prevent the German-Japanese alliance from becoming a military alliance; and that she would deal with China on an equal footing.

Less pleasing to China than the above, was another statement in the interview to the effect that all Japan would rise up if the independence of Manchukuo were threatened.

The favorable impression produced in China by the conciliatory tone of these remarks of Mr. Sato was considerably dashed, however, by a Reuter despatch from Tokyo under date of March 12th, to the effect that a close examination of Mr. Sato's pronouncements in the Diet and elsewhere since his assumption of office indicated that his policies toward China actually do not differ materially from those of his predecessor in office, Mr. Hirota. As a basis for this assumption, the following statements were attributed to Mr. Sato:

(1) Manchukuo is a *fait accompli* and cannot be discussed with China.

(2) Japan will follow the open door policy in South and Central China, implying that Japan still clings to the idea of special interests in North China.

(3) There was no discrepancy of views between him and the Premier (General Hayashi) and the Minister of War (General Sugiyama) on Japan's China policy.

(4) He saw no necessity for fundamental revision of Japan's policy toward China, but wished only to review the methods for pursuing that policy.

The points enumerated above conflict considerably with Mr. Sato's earlier fair-minded and conciliatory remarks on the Chinese situation, which may indicate that he had previously either not expressed his true viewpoint or that he had experienced a change of heart.

Although Mr. Sato appears to have backed water considerably on some of his recent statements indicative of a desire to deal with China on a basis of equality, he has evidently not endeared himself to the Army and Rightists by even this slight show of a moderate attitude toward the solution of Sino-Japanese differences. Press reports from Tokyo indicate that the opposition to him in conservative circles may even eventually force his resignation.

Whether Mr. Sato has the desire or the courage to run counter to the wishes of the militarists concerning China is uncertain, but recently other political leaders in Japan have not hesitated to express open opposition to the military clique. According to a Central News Tokyo despatch, on March 16th, Mr. Ziichi Matsumura, a member of the House of Peers, engaged in a heated debate with the Minister of War, General Sugiyama, on the subject of the statements frequently issued on diplomatic issues by Japanese military organs in China. Mr. Matsumura referred particularly to the declaration issued last December by the Kwantung Army concerning Suiyuan, in which the Army categorically stated its vital interest in the Mongolian situation and its intention to intervene if the fighting in Suiyuan should threaten Manchukuo or territory controlled by Manchukuo. According to Mr. Matsumura, the Kwantung Army had no right to issue such a statement, following as it did shortly after a declaration by the Foreign Office that Japan was in no way concerned in the Suiyuan situation. General Sugiyama is reported to have hotly defended the right of the Army to make such a statement, but Mr. Matsumura was not prevented from expressing the hope that the Army would in future be better disciplined as far as the issuing of statements on political topics is concerned.

The discrepancy between the statements of the Foreign Office and the Kwantung Army concerning Suiyuan was commented on at the time in the reports of this office. It is encouraging to note that a certain portion of the Japanese public did not fail to take note of the high-handed attitude of the Army in ignoring the official statements of the Foreign Office.

To sum up the question of whether there will be any change in the attitude of Japanese foreign policy as far as China is concerned, it is believed that Mr. Sato in his heart really desires an improvement in Sino-Japanese relations effected without infringements on the rights of the Chinese, but that he will probably be unable to carry out such a policy in the face of the opposition of the militarists.

In line, however, with the definite slowing down of Japanese policy in China, which has been noted and commented upon by this office for some time, it is believed that the Japanese Army, for the present, will not take any sudden steps to force a settlement of the issues now outstanding between the two countries, but will be content to let matters remain in the present status quo, until an opportunity is presented for more decisive action.

In any event, it is encouraging to those who hope to see a change in Japan's attitude toward China that there are now in Japan persons who dare to stand up in the Diet and openly defy the all-powerful militarists.

(c) Smuggling.

On March 14th, Chinese Paoantui (Peace Preservation Troops) fired at a truck conveying smuggled goods near Tsangchow, south of Tientsin, wounding two Koreans fatally and one slightly. According to Reuter, although the Japanese admitted that the Koreans were engaged in smuggling, a strong protest and demands concerning the incident were presented to the Chinese authorities in Tientsin. Demands are said to have been made for compensation, an apology, a ban on the use of firearms against smugglers, and a guarantee that similar incidents will not occur in the future.

Reuter further stated that when the demands were first presented to the Chinese authorities in Tientsin, the latter attempted to place responsibility for the affair on the Customs service.

The Japanese press of Tientsin, commenting on the incident, is reported to have stated that as over 3,000 Koreans are dependent for a livelihood on smuggling and dope peddling, it would be necessary for the Japanese to take a very strong attitude toward these incidents.

According to reports, the incident has been settled "locally," but the terms of the settlement are unknown. Which is the more disgusting in this affair, the insulting attitude of the Japanese or the lack of intestinal fortitude on the part of the Chinese, is difficult to decide.

As previously remarked in the reports of this office, little credence can be placed on the talk emanating from many quarters that China has reached the limit of endurance as far as mistreatment by Japan is concerned as long as China endures the smuggling situation. If China intends to resist Japan, an excellent way to start would appear to be to declare an open season on smugglers. It is difficult to believe that such a declaration would not be received with respect, if not pleasure, throughout the world.

Recent efforts to control smuggling in Tientsin have resulted in the seizure of thousands of dollars worth of smuggled goods in some of the largest Chinese firms in the city, which indicates that blame for the continuance of smuggling cannot be laid altogether on the Japanese. If the Chinese would not buy, smuggling would soon be greatly reduced.

(d) Japanese Protest Against Alleged Mistreatment of their Nationals on the Ping-Sui Line.

Representations were made on March 23rd by officials of the Japanese Embassy to local officials concerning ill treatment which Japanese are alleged to have received recently on the Peiping-Suiyuan Railway. Japanese consular officers and a Japanese army officer are alleged to have been forced to submit to an humiliating search of their baggage at Nankow, in spite of the fact that the persons in question carried credentials showing their official status. The usual demands are said to have been made for the punishment of the responsible Chinese officers, an apology, and a guarantee against recurrence of similar incidents.

The protest was received by General Chin Te-chün, Mayor of Peiping, together with an official of the Hopei-Chahar Political Council. General Chin is reported to have promised an investigation of the affair and a guarantee that all Japanese engaged in legitimate business and carrying proper credentials would receive adequate protection.

(e) Japanese - 29th Army Friction in Tungchow.

An incident, the exact nature of which is not known, occurred in Tungchow on the 22nd. As far as can be determined, soldiers of the 29th Army stationed at the south gate of the city got into trouble with Koreans, one of whom was either killed or seriously injured. Demands for settling the incident were at first reported to include withdrawal of the detachment of the 29th Army from the south gate of Tungchow, but it is now believed that the terms did not include anything more drastic than the usual demands for compensation, apology, and guarantee.

Reuter states that the incident has been settled amicably. The lack of publicity concerning the affair and the fact that the Japanese did not play it up more are encouraging.

2. Reorganization of Hopei-Chahar Political Council.

The Kuo Min News Agency recently reported that a drastic reorganization of the administrative machinery of Hopei and Chahar may soon be effected. This reorganization, according to the report, may extend even to the practical abolition of the Hopei-Chahar Political Council, but as there is no intention to effect any change in the Pacification Headquarters of Hopei and Chahar, of which General Sung Che-yuan is concurrently Commissioner, the results of such a reorganization, if carried out, would not be very drastic.

Reports of any sweeping change in the status of the Hopei-Chahar Political Council have not been confirmed locally, although notices concerning possible changes in personnel, of no great importance, appear in the press from time to time.

General Sung Che-yuan, Chairman of the Hopei-Chahar Political Council, Commander of the 29th Army, and Pacification Commissioner of Hopei and Chahar, returned to Peiping from Tientsin, where he has been making an extended stay, on the 9th of March. Interviewed after his return, General Sung stated that there had been and would be no change in his policy of supporting the Central Government and leaving the conduct of foreign affairs to the proper officials in Nanking. General Sung's re-affirmation of loyalty to the Central Government was generally favorably commented on in the Chinese press, although the Ta Kung Pao, generally considered the best paper in North China, warned him to watch his step in his present extremely critical situation vis-a-vis Japan.

During February, a reduction in the staffs of several commissioners of the Council resulted in more than two hundred minor officials and clerks losing their jobs, but none of the high ranking members of the organization were let out.

3. Chiang Kai-shek Returns to Nanking and Leaves Again.

Marshal Chiang Kai-shek, Chairman of the Military Affairs Commission of the National Government, President of the Executive Yuan, Member of the Central Executive Committee of the Kuomintang, Member of the National Government State Council, Chairman of the Aviation Affairs Commission; Principal of the War College, the Central Military Academy, and the Infantry, Cavalry, Artillery, Engineer, Signal Corps, Communications, and Quartermaster Schools; Chairman of the National Defense Commission, Chairman of the Huai River Conservancy Commission, etc., etc., arrived in Nanking on March 14th from Kuling, where he and Madame Chiang had been on holiday since the ninth. The Generalissimo and his wife left for Hangchow on the 23rd, for the purpose, so announced, of allowing the Marshal the opportunity to recuperate further his health.

4. Kwangtung and Kwangsi Still Discontented.

In spite of reports frequently appearing in the Central Government controlled Chinese press that China is now completely unified as far as relations with the Southwest are concerned, reports from Kwangtung and Kwangsi indicate that these two provinces are not yet entirely happy in their feelings toward Nanking.

Kwangtung is reliably reported to be disgruntled over the fact that a proposal submitted to the recent Third Plenary Session of the Central Executive Committee of the Kuomintang to the effect that the 50% per premium of National currency over Canton currency should be reduced to 40% was turned down. This is said to have been a great disappointment to certain officials in Kwangtung who stood to make a handsome profit in exchange speculation if the proposal had been adopted.

Rice, taxation, and currency problems continue to trouble Kwangtung, although the rice shortage has been somewhat alleviated by stringent control of exports, and a business tax recently imposed by the Central Government has been postponed.

Although no unfavorable comment appeared in the Canton Chinese press concerning the results of the Third Plenary Session, favorable comment was conspicuous by its absence.

General Huang Mu-sung, Chairman of the Kwangtung Provincial Administration, died in Canton on March 20th. General Huang was appointed Chairman of Kwangtung immediately after the settlement of the Southwest trouble last year. Before going to Canton he was Chairman of the Mongolian-Tibetan Affairs Commission, and had been long known as a personal favorite of Chiang Kai-shek. General Wu Tieh-cheng, Mayor of Shanghai, has been appointed to succeed General Huang.

Kwangsi, generally more recalcitrant in its attitude toward the Central Government than Kwangtung, was also not pleased with the results of the Third Plenary Session, which meeting was not attended by Li Tsung-jen, Pai Chung-hsi, and Li Chi-shen, the big three in Kwangsi affairs. It is reported that Kwangsi, through delegates not attending, made proposals to the Session confirming the continued alliance of Kwangsi with the popular front movement, demanding immediate war of resistance against Japan, and the removal of all restrictions on public expressions of popular opinion and patriotic movements. The Session is said to have rejected the first of these demands, but approved the second.

Reports have recently appeared in the Nanking-controlled press to the effect that difficulties between the Central Government and Kwangsi have been liquidated, the province having promised to abandon the popular front movement, support Nanking, and effect the long postponed nationalization of provincial troops. It is very doubtful if any such agreement has been reached, but if it has it most certainly must have been either a temporary truce, or effected only after substantial unrevealed concessions to Kwangsi demands.

At the present time, however, it is believed that the Central Government need not worry greatly if Kwangtung and Kwangsi are not happily disposed toward it, for the two Southwest provinces are not in a position to make serious trouble, no matter how much they might desire to do so.

The recent arrest of Liu Lu-yin (see our No. 9528, par. 12) was a slap in the face to Kwangsi. Liu was a Kwangsi delegate to the Third Plenary Session of the C.E.C. He had formerly been a close adviser to Chen Chi-tang and took a leading part in the Southwest "rebellion" last summer. Sent to Kwangsi after the liquidation of the "Liangkwang" (Kwangtung-Kwangsi) trouble, he had been active for some time in opposing cooperation with the Central Government. His past record explains clearly the probable reason for his arrest.

5. Situation in Szechwan.

Rumors persist that all is not well between Szechwan and Nanking, and Liu Hsiang, Number One War Lord and Chairman of the Province, is said to be lukewarm in his support of the Central Government. The presence of such a rift within the lute was admitted on March 23rd by the personal representative of Chiang Kai-shek in Szechwan, General Ho Kuo-kwang, who recently arrived in Nanking from Chungking. General Ho was careful to state, however, that the "slight differences" between the province and the Central Government would be amicably settled.

Central News reported recently that Chiang Kai-shek had ordered one-third of Szechwan provincial troops disbanded. Unless forced to do so, Liu Hsiang is not likely to submit to such a reduction in his forces.

Szechwan is now in the grip of one of the worst famines in its history, one hundred and five out of one hundred and forty-eight districts being affected.

Due to strict censorship, the real situation in Szechwan is difficult to determine, but as the Military Attache is now in the province, reliable reports can be rendered after his return.

6. Mengkukuo.

Reports have been received from foreign sources that since March first the six Japanese-controlled hsien in North Chahar are called "Mengkukuo," - "The Country of the Mongols." Te Wang is said to have been put in as the nominal ruler of this new country, with his capital in Chapsur, north of Kalgan.

Other reports state, however, that no "Mengkukuo" has been set up, but that Te Wang has merely been put in control of Tehua Hsien, with the other five hsien more or less under his control.

Whether or not the six hsien of Chahar not under Chinese control are called "Mengkukuo" makes very little difference, for no matter what the district may be named, it is nothing more or less than a Japanese dominated area, where Mongols, if allowed to hold office, are kept strictly under the thumbs of Japanese advisers who wield the real power.

If Mengkukuo has been established, it will be an illustration of the Chinese saying, "The solution in which the ingredients are suspended may have been changed, but the medicine remains the same."

7. Extraterritorial Rights of Spanish Citizens.

Reuter reports from Nanking under date of March 20th that a proposal passed by the recent Third Plenary Session of the Central Executive Committee for the abolition of extraterritorial rights of some foreign powers in China has been referred to the Ministry of Justice for consideration.

Central News reports under the same date that the Ministry of Justice has ordered that all law cases involving Spanish citizens shall be tried in Chinese courts in accordance with Chinese law, as Spaniards are considered to have voluntarily relinquished their rights of consular jurisdiction because of the recent resignation of all Spanish diplomatic and consular officials in China.

The report states further that Spanish citizens summoned to appear before The Special District Court in Shanghai have failed to appear in some instances and that the Judicial Yuan is considering means to deal with this situation.

8. Diplomats.

The latest news about Dr. C. T. Wang, Ambassador-designate to the United States, is that he will leave to take up his duties in April. Reluctance to part from his aged mother, reported in frail health, has been given as one reason for Dr. Wang's delay in starting for Washington, but another reason, which sounds more likely, has been advanced to the effect that he is trying to persuade the Central Government to make more adequate provision for the support of the Chinese Embassy in Washington. ✓

Mr. Hsü Shih-ying, Ambassador to Japan, who recently returned to his homeland, has announced his determination to quit and it is reported that efforts to make him change his mind have not succeeded. Mr. Chen Chieh, Vice-Minister of Foreign Affairs, has been mentioned as a successor to Mr. Hsü.

It has been announced that Dr. H. H. Kung, Minister of Finance, will be sent to England as a special envoy to represent China at the coronation of King George the Sixth. Dr. Kung is scheduled to leave on April 2nd, carrying with him a number of costly articles of Chinese production as gifts to the King and Queen. ✓ Also designated to represent China at the coronation are Admiral Chen Shao-kwan, Minister of the Navy, and Mr. Quo Tai-chi, the Chinese Ambassador to England. Central News reports that an impressive retinue of five counsellors, five secretaries, five "experts," and seven military attaches will accompany Dr. Kung, possibly to carry the presents.

9. Foreign Educators Appeal for Release of Political Prisoners.

Reuter reports that sixteen foreign educators and scientists, including Professor Einstein and Dr. John Dewey, have telegraphed to Marshal Chiang Kai-shek, Dr. H. H. Kung and General Feng Yu-hsiang, appealing for the release of the seven leaders of the National Salvation Association who were arrested last December on charges of sedition.

The telegram voices the hope that Marshal Chiang, Dr. Kung and General Feng will accept the friendly advice of the sixteen foreign well wishers of China and respect the principle of freedom of the press and of speech.

Only one Chinese paper in Shanghai, according to the report, has published this appeal.

10. Wang Ching-wei Attends Suiyuan Memorial Services.

Wang Ching-wei, Chairman of the Central Political Council of the Kuomintang, who recently returned to China from Europe, flew to Suiyuan on March 14th to attend memorial services held in honor of the soldiers and civilians who died in the defense of Suiyuan Province last year. Yen Hsi-shan, Pacification Commissioner of Shansi and Suiyuan, also attended the services, together with over one hundred other Chinese officials.

As has been pointed out in previous reports, the successful defense of Suiyuan last year brought great joy to the hearts of the Chinese people, as victories against foreign invaders, if a motley force of poorly disciplined Manchukuoans, Mongols and bandits could be called such, have been all too few in Chinese history. It was doubtless with the idea of keeping the Suiyuan victories fresh in the minds of the people that the memorial services were held. It would certainly seem that such exercises could do more to boost morale than the "humiliation days," marking disastrous defeats, which have been so often observed in the past.

11. Economic Notes.

Reconstruction in Hopei. According to a recent report of the Hopei Reconstruction Department, the province has accomplished remarkable progress in reconstruction work during the past fiscal year. Enumerating specific items, the report states that important work has been done on Yellow River flood control, canals have been constructed to water 8,666 acres of land, 5,000 wells were drilled, 6,000,000 saplings and 587,000 trees were planted, 1849 new credit and cotton industry cooperatives (37,948 members) were formed, licenses were granted to operate fifteen mines (four coal, four gold, 1 manganese, 1 alabaster and two lead), 691 kilometres of new highway were constructed and two new interprovincial telephone lines were completed and opened to traffic.

Hainan Island. The press continues to carry reports of interest in the economic development of Hainan Island. That Italy may also be interested in Hainan is indicated by the fact that Dr. Hugo Capuzzo, an attache of the Italian Embassy, recently arrived on the island for the reported purpose of studying tropical malaria and mosquitoes.

An Italian Consulate was recently opened in Canton city proper (i.e., not on Shameen).

British Interest in Economic Development of South China.

The number of important British visitors to Canton recently indicates a possible future acceleration of Sino-British cooperation in South China. The visitors include the British Ambassador, the British Trade Commissioner for South China, and Mr. W. M. Kirkpatrick, Special Representative of the British Export Credit Guarantee Department. The Canton press reports that a British engineer will be asked to assist in formulating a concrete program for the development of South China and that British interests have been invited to take a leading part in the economic development of the Kwangtung mainland and Hainan Island.

1937 Contract for Changlu Salt Signed. The Tientsin North China Star states that after months of negotiation, a contract regarding salt to be shipped to Japan in 1937 has been signed.

According to the terms stipulated in the agreement, a total of 230,000 tons of salt will be shipped from the fields at Tangku and Lutai to Japan during the year for industrial purposes, as against 70,000 tons shipped last year. The price has been fixed at $2.40 per ton, the same as last year's rate.

The stocks will be transported in three shipments; the first, of 100,000 tons, is scheduled to leave for Japan next month.

Five-Year National Economic Reconstruction and Defense Program.

The American Commercial Attache in Shanghai reports an unconfirmed report in the press of that city that the recent Third Plenary Session of the Central Executive Committee of the Kuomintang approved in principle a project to raise 2,000,000,000 yuan in the course of the next five years to finance a five-year program of national economic reconstruction and defense, the funds to be raised through public subscription, domestic loan flotations, foreign credits, and other sources. No particulars are as yet available concerning the loan, but it is rumored that a 200,000,000 yuan issue is to be floated shortly.

Our Commercial Attache also reports an announcement by the Ministry of Railways that as part of this construction program, three new railway projects are to be carried out; first, a line between Nanking and Canton via Kiangsi and Fukien, using the present Nanking-Kiangsi system to connect with the projected Canton-Meihsien (East Kwangtung) line; second, a line between Swatow and Changchow on the coast of Fukien; and third, a Canton-Yunnan line via Kwangsi.

Lunghai Railway Makes Money. The Lunghai Railway announces an increase of revenue of two million dollars over last year in spite of the Sian trouble, which should be good news for the Belgian Company who recently sold the company the rolling stock for its "green trains" on credit. The revenue for 1936 was 17,000,000 Mex. and the company hopes to take in 20,000,000 in 1937.

Re-opening of Lungyen Iron Mines and Construction of Tientsin-Shihchiachuang Railway.

These two important projects in the Japanese economic program in North China remain in the paper stage.

For and in the absence of the Military Attache:

David D. Barrett

David D. Barrett
Captain, Infantry
Assistant Military Attache

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COMMENTS ON CURRENT EVENTS

March 26-April 9, 1937

RECEIVED G/2 W. D. MAY 5 1937

1. Sino-Japanese Relations
2. Conference at Hangchow
3. North China Affairs
4. Abolition of Extraterritoriality in China
5. Szechwan
6. Sino-British Relations
7. Alleged Sino-Russian Agreement
8. Economic Notes

1. Sino-Japanese Relations.

(a) General.

There have been no important developments in Sino-Japanese relations since the last report. All indications point to a willingness on both sides to let matters remain in status quo for the present at least, which leaves the Chinese in a position to claim something better than a draw in the negotiations of the past year.

Mr. Sato, the Japanese Foreign Minister, while pledging himself not to withdraw from the three-point program concerning Chinese affairs laid down by his predecessor in office, Mr. Hirota, has nevertheless recently stated that he intends to re-examine and reconsider all demands served on China by Japan. Despatches from Tokyo also indicate that Mr. Sato may be considering effecting some change in the present status of the East Hopei Autonomous Government. Thus Mr. Sato is generally credited with being most fair-minded in his attitude toward China, but whether or not he will be able to effect any substantial improvement in the relations of the two countries remains to be seen.

Mr. Hirota's three principles are: economic co-operation between China and Japan, autonomy of North China, and joint military action against communism. As far as the first of these is concerned, Japan is making progress, albeit slowly; the second principle is more or less of a fait accompli; but so far China has successfully resisted all efforts to force upon her acceptance of the third principle.

✓ Japan's failure to force acceptance of military co-operation against the Reds has boosted the Chinese morale and has caused many people to feel that their country is at last making a successful stand against Japanese aggression. China's recent stand, made during the visit of the Kodama Economic Commission to Shanghai and Nanking (No. 9532, par. 1), that economic co-operation must follow settlement of political issues has also encouraged the Chinese people to a considerable extent.

It would be strange if the recent more or less passive attitude of the Foreign Office toward China should not be irksome to the Japanese military both at home and in this country. According to Reuter, at a conference of Japanese officers serving in China, held recently in Tientsin, it was decided that the Army should pursue a "forward policy" even more vigorous than that hitherto followed. Reuter states that the following resolutions were adopted at the meeting:

(1) Maintenance of the East Hopei Regime.

(2) Continuance of pressure for joint Sino-Japanese front against communism.

(3) Increase of "special service" bureaus in North and Central China.

(4) Hastening of Sino-Japanese program of economic co-operation in North China.

(5) Continuance of pressure on Tokyo not to weaken Japan's policy toward China.

Concerning Sino-Japanese relations, it is significant that several recent incidents which formerly might easily have been made the basis of drastic demands upon the Chinese Central Government have passed off with very little comment. These include the wounding of Japanese nationals by soldiers of the 29th Army stationed outside the south gate of Tungchow; the fatal shooting of Korean roughs engaged in smuggling south of Tientsin; and the alleged mistreatment of Japanese officials travelling on the Peiping-Suiyuan Railway line, all of which affairs were referred to in our last Comment on Current Events.

Recent reports that Mr. Kawagoe, the Japanese Ambassador, would soon visit Tokyo to report on Sino-Japanese affairs are now denied, the reason being given that at the present time it would not be worth while for him to make the trip. Since the settlement of the Pakhoi and Chengtu incidents no negotiations have been carried on between the two countries and there is every indication that this state of quiescence may continue for some time, particularly as Japan is now thoroughly occupied with the political affairs incident to the election of a new Diet.

Central News reports from Tokyo that the Japanese Foreign Office has decided to increase the number of Counsellors of Embassy serving in China from one to three, to be stationed in Nanking, Shanghai and Peiping. This step is said to have decided upon in order to relieve the Ambassador of the necessity of making trips to Shanghai and Peiping except upon the most urgent business.

(b) Smuggling.

The latest turn in the smuggling situation has developed in Shanghai, where Japanese and Korean roughs have been attempting, in some cases successfully, to smuggle large amounts of copper coins to Japan. The copper in the coins is worth more than the currency value, which makes shipment of coppers to Japan a profitable enterprise. The smugglers prefer Shanghai coppers because they are smaller than those used in North China, and more of them can be bought for a Chinese dollar than in the local market.

The Shanghai copper smugglers have been following the usual methods of assault and intimidation of customs inspectors trying to control their activities. A Shanghai report states that a large shipment of coppers was known recently to be on board a certain Japanese vessel, but Customs officials were unable to locate it "because of the vigilance of the smuggling ring."

Reports from Tientsin state that efforts on the part of Customs officials have succeeded in controlling to some extent the flood of smuggled goods into that city. It is believed, however, that any decrease in smuggling is due to economic causes rather than to any ability on the part of the Customs to cope with the situation. Considerable efforts have been recently made in Tientsin to effect registration of smuggled goods now in the hands of merchants with a view to collecting at least a part of the customs duties which should have been levied thereon. Such efforts, however, seem more like attempts to lock the door after the horse has been stolen than steps to get at the root of the smuggling business.

It is now reported that Japanese officials in Tientsin are demanding payment of the funeral expenses of the Koreans recently shot and killed while engaged in smuggling near Tsangchow, south of Tientsin. This should encourage the Chinese authorities to take further drastic measures in the control of smuggling, as the demands might easily have been much more severe, in spite of the fact that all the justice in the case appears on the side of the Chinese.

2. The Hangchow Conference.

Beginning on March 29th, a number of China's most important military and civil leaders converged on Hangchow, where Chiang Kai-shek is now staying, for conferences with the Generalissimo lasting several days.

The list of those proceeding to Hangchow is an imposing one, including Han Fu-chü, Chairman of Shantung; T.V. Soong, Chairman of the National Economic Commission and Governor of the Bank of China; Yü Hsüeh-chung, former Chairman of Kansu and principal figure with Yang Hu-cheng in the recent Sian revolt; Yang Hu-cheng, former Defense Commissioner of Shensi; Wu Tieh-chen, former Mayor of Greater Shanghai and newly appointed Chairman of Kwangtung; Yang Hu, Garrison Commander of Shanghai and Woosung; Liu Chih, Defense Commissioner of Honan and Anhui; Tang En-po, Commander of the 13th Army in Suiyuan; Hu Tsung-nan, Commanding the First Central Government Army; Ho Kuo-kuang, Director of Chiang Kai-shek's provisional headquarters in Chungking; and Chen Cheng, Vice-Minister of War.

The reported purpose of the conference was to discuss some of the important questions now facing the Central Government, including disposition of the Central Government troops after the transfer of the old Northeast Army (Chang Hsueh-liang's former troops) to Honan and Anhui, negotiations with the Reds, famine relief in Shensi, and measures for the settlement of the Szechwan situation. Japanese papers in Shanghai freely stated that the purpose of the conference was "preparation of first lines of defense against Japan."

Reports were in circulation that Han Fu-chu's purpose in going to Hangchow was to try and gouge more funds for his province out of Chiang Kai-shek. Similar reports, however, are usually circulated whenever any high Chinese official visits the Generalissimo, and are probably correct in a great number of instances.

Yü Hsüeh-chung took advantage of his trip to Hangchow to run over to Fenghwa and call on his old chief, Chang Hsueh-liang, now languishing in retirement in that secluded spot. Yang Hu-cheng, however, did not call upon the Young Marshal, in spite of reports that he intended to do so.

3. North China Affairs.

According to a reliable Chinese source, the recent Third Plenary Session of the Central Executive Committee of the Kuomintang seriously considered doing away with the Hopei-Chahar Political Council, on the grounds that inasmuch as Sung Che-yuan had made little or no progress toward securing the abolition of the East Hopei Autonomous Government, winning back the six Japanese-controlled hsien in north Chahar, and suppressing smuggling, there was no necessity for further maintenance of the Council.

Largely due, however, to the representations of General Chin Te-chun, Mayor of Peiping, who attended the Session as a delegate, it was decided to give General Sung Che-yuan a further opportunity to try and improve the North China situation. If at the end of three months from the date of the closing of the Plenary Session, no definite results have been accomplished in Hopei and Chahar, the Central Government may again consider the question of abolishing the Council.

General Sung Che-yuan recently spent some time in Tientsin, during which period he is reported to have approached General Tashiro, Commanding the Imperial Japanese Army Forces in China, concerning the questions noted above. General Tashiro is said to have refused to commit himself, stating that as he was due to be relieved soon, he could not assume responsibility for any drastic changes in North China.

To a foreign observer it seems unfair that such difficult tasks as securing abolition of the East Hopei regime, controlling smuggling, and winning back the lost territory in Chahar should be placed on the shoulders of Sung Che-yuan. These would appear to be problems for the Central Government to solve, particularly as China has been insisting for some time that local officials should not attempt to handle matters which are properly the province of the Central Government.

From the Chinese viewpoint, however, it probably does not seem so unjust that Sung Che-yuan should be held responsible for taking care of the North China situation. Many Chinese feel that inasmuch as Sung will gain great credit if he accomplishes something in the provinces under his control, he should take some of the blame if no results are obtained. Moreover, if Nanking should take over entirely the task of solving the problems of North China, Sung would lose much face, and face is always an important consideration in this country.

The Hopei-Chahar Political Council has published an order to the effect that beginning April 1, 1937, income tax will be collected in the areas under the jurisdiction of the Council. Assuming that the taxes collected will be remitted to the Central Government, this is an indication that Nanking still preserves some measure of authority in Hopei and Chahar.

Central News reports that a commission of about twenty members from the Hopei-Chahar Political Council will soon visit Japan to make a survey of conditions there. The date of departure has not yet been fixed.

4. Abolition of Extraterritoriality in China.

Dr. Wang Chung-hui, Minister of Foreign Affairs, in a recent press interview stated that since he had taken up his post he had decided to make abolition of extraterritoriality the principal work of the Ministry in accordance with a resolution adopted at the Third Plenary Session of the Central Executive Committee of the Kuomintang. He would try his best, said Dr. Wang, to open negotiations with the Powers for the abolition of their extraterritorial privileges in this country. He hoped that this would meet with success so that China might be able to attain the status of a fully independent nation in the world.

5. Szechwan.

Indicating the importance attached by Nanking to a settlement of conditions in Szechwan, Mr. Wu Ting-chang, Minister of Industries, was recently despatched to Chengtu. The purpose of his visit is generally understood to have been to try and effect an improvement in the relations between Liu Hsiang, Chairman of Szechwan, and the Central Government.

It is probable that the Central Government would like very much to see Liu Hsiang's wings clipped to some extent, and reports are in circulation that an effort will be made to ease him out of his job as provincial chairman. If a Nanking controlled governor could be put in Liu's place it would of course increase the power and prestige of the Central Government in Szechwan, but such an action would by no means leave Liu out in the cold as he would still retain his post as Commander of the 6th Route Army, in other words, the Szechwan provincial troops.

A Branch Headquarters of the Military Affairs Commission was recently established in Chungking, with General Ho Kuo-kuang, a favorite of Chiang Kai-shek, in charge. This makes Ho the personal representative of Chiang Kai-shek in Szechwan, and as might be expected, friction is said to have developed between him and Liu Hsiang. To dispel this friction was one of the principal purposes in sending Wu Ting-chang to Chungking and Chengtu.

Another report has it that Liu Hsiang has been in disagreement with the Central Government concerning the purchase of the land for the proposed Chungking-Chengtu Railway. The Central Government is said to be desirous of taking this job off Liu Hsiang's hands, while he is more than willing, even anxious, to handle the matter. The conclusion is obvious that there is money to be made in the business.

The Nanking-controlled press states that possible trouble in Szechwan has been averted, but it seems hardly likely that matters could have been settled so quickly and easily. The Military Attache will soon return to Peiping from a visit to Szechwan and his report concerning actual conditions there should be of interest.

6. Sino-British Relations.

In a recent editorial in his "Shanghai Evening Post and Mercury," Mr. G. H. W. Woodhead, the eminent British journalist and publisher, who has often beem condemned by the Chinese as a reactionary and die-hard, commented most favorably upon the present happy state of Sino-British relations.

Mr. Woodhead referred to the selection of Dr. H. H. Kung, Minister of Finance and Vice-President of the Executive Yuan, as the principal delegate to the Coronation as a definite indication of the importance which China attached to Anglo-Chinese relations, for Dr. Kung, according to Mr. Woodhead, may be regarded as the third ranking official of the Central Government.

Calling attention to the number of distinguished personages who will accompany Dr. Kung, Mr. Woodhead ventures the opinion that such numerous and representative personnel indicates that other than merely ceremonial duties may be expected of the mission, thus hinting that Dr. Kung and his associates may carry on important negotiations during their stay in England.

Mr. Woodhead also referred to the recent visit of the British Ambassador to Hankow, Changsha, Canton, Swatow, and Amoy as emphasizing the friendly relations between Great Britain and China. The friendly reception accorded Sir Hugh Montgomery Knatchbull-Hugesson in all these places has convinced him, states Mr. Woodhead, of the improved official and unofficial relations existing between British and Chinese.

The improved Anglo-Chinese relations in the Yangtze Valley and South China made a deep impression, according to Mr. Woodhead, on the recent Kodama Economic Mission. "No responsible section of informed Japanese opinion," writes Mr. Woodhead, "now clings to the view that Britain is 'down and out' in the Far East, and there is evidence that there is a growing feeling in business circles in Japan in favor of adopting some of the methods which have contributed to the maintenance of British influence, such as a banking institution comparable in importance to the Hongkong and Shanghai Bank, and the relaxation of military pressure as a means to promoting real economic co-operation."

The improvement in Sino-British relations over what they were some ten or twelve years ago is very apparent to anyone who was in China at the time of the shooting of Chinese students in Shanghai by the police of the International Settlement and the taking over of the British Concession in Hankow. At that time there was a general antipathy toward Britishers throughout China and American travellers in the interior not infrequently had the experience of receiving surly treatment until they stated their nationality, the country people often mistaking Americans for British.

At the present time, China would certainly be very foolish if she did not go out of her way to cultivate good feeling with England. The advantages in having Great Britain on her side against Japan are too apparent to need comment, to say nothing of the benefits to be reaped from the cultivation of amicable economic relations.

7. Alleged Sino-Russian Agreement.

As far as can be determined at present, a report circulated by Domei News Agency on the 23rd of March that Soviet Russia had concluded a six-point understanding with China was without foundation in fact.

8. Economic Notes.

Strikes in Shanghai.

Following rejection of demands for an increase in wages, about 20,000 workers in Shanghai silk mills went on strike on March 31st. These were later joined by about 5,000 cotton mill workers. The demands of the workers were later partially met by the owners and by April 6th all mills were reported in full operation again. There was some rioting during the period the workers were out on strike.

As a protest against a recent increase in the tobacco tax, twenty-one Shanghai cigarette factories, employing about 12,500 hands, suspended operations on April 5th. The factories have not yet resumed operation.

Japanese Banks in Shanghai Agree to Surrender of Silver.

The Central Bank of China has announced that the Japanese banks in Shanghai have agreed to surrender to the Chinese Government their stocks of silver on terms similar to those which governed the turning over of silver by other foreign banks in 1935. According to Reuter the total stocks of silver in Japanese banks in Shanghai amount to Mex. $9,000,000.

When China went off the silver standard in 1935 the Japanese banks refused to surrender their silver. The Chinese papers in Shanghai give credit to the recent Kodama mission for assisting in bringing about the successful termination of this long-standing question.

Japanese State Dr. Kung Will Attempt to Float British Loan.

According to Domei, Dr. H. H. Kung will take advantage of his trip to London as China's representative at the coronation to negotiate a £20,000,000 loan with British government and financial leaders. The report states that the loan will be underwritten by four British banks, including the Hongkong and Shanghai Banking Corporation and the Chartered Bank of India, Australia, and China.

Dr. Kung has denied that he will attempt to negotiate a loan while in England.

American Commercial Attache Visits Hainan Island.

Mr. Julean Arnold, Commercial Attache of the American Embassy, returned to Canton from Hainan Island on April first. The Central News Agency quotes Mr. Arnold to the effect that the harbors at Kiunchow and Yaichow, at the northern and southern tips, respectively, of the island, can be developed into excellent harbors. Dredging of these harbors and construction of railways on the island would assure it a great future, according to Mr. Arnold.

The British Ambassador, Sir Hugh M. Knatchbull-Hugesson, recently emphatically denied a Japanese report that British capital was participating in the development of Hainan Island. The report had stated that England was interested in the development of the island for strategic reasons.

Japan to Station Financial Agent in China.

Central News Agency reports from Tokyo that the Japanese Ministry of Finance, in order to follow up the results of the Kodama Economic Mission, has decided to station a resident financial commissioner in China next autumn.

Train Service on Canton-Hankow Line Improved.

With the arrival of new railway coaches from England, daily express service between Canton and Wuchang was inaugurated April first. With the inauguration of this service, the running time between the two cities has been considerably cut down. Wagons-Lits sleepers are attached to express trains.

China's Budget Shows Big Deficit.

According to a Reuter despatch from Shanghai, the Chinese budget has run behind about Mex.$170,000,000 since the beginning of the present fiscal year last July. Receipts thus far are stated to have amounted to only $750,000,000 Mex. and drastic retrenchment measures will be necessary to keep the deficit as low as possible.

Hongkong to become Great Air Post Office.

The Daily Express, Hongkong, reports that the city is to become one of the largest air post offices in the world with the inauguration, next September, of direct air mail service between the United States and Australia, via Hongkong.

The same paper reports that the first Pan-American Airways Clipper for Hongkong will leave Alameda Airport on April 21st. Macao is to be made a subsidiary port of call for the Clippers, which will call there as well as at Hongkong. The terminal base, however, is to be in the latter port.

Hsin Chung Company to Open Salt Fields.

According to the Tientsin North China Star, the China Development Company (Hsin Chung Company) has decided to open its own salt fields near Hanku (between Pehtang and Lutai on the Peking-Mukden Railway), and to purchase 100,000 mou (16,500 acres) of land at the rate of $2 Mex per mou for this purpose. According to the item the salt fields will be capable of producing 30,000 tons a year.

The salt fields around Hanku are within the area of the Changlu Salt District, and their acquirement by Japanese interests would probably not be welcomed by China. It is possible, however, that this project, like a number of others previously announced as promotions of the Hsing Chung Company, may never get beyond the paper stage.

For and in the absence of the Military Attache:

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Captain, Infantry
Assistant Military Attache

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COMMENTS ON CURRENT EVENTS

April 10 - 23, 1937

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1. Agitation for Abolition of Extraterritoriality
2. Delicate Situation on Manchukuo-Soviet Border
3. New Assignments in Anhui and Shantung
4. North China Economic Item
5. The Coronation Delegation
6. Chinese Fantasy
7. Future Status of Chang Hsueh-liang Still Undetermined
8. Chungking-Chengtu Railway
9. Famine in Szechwan
10. Belgian Legation to be Embassy
11. Hopei-Chahar Council's Mission to Japan

1. Agitation for Abolition of Extraterritoriality.

The discussion in Egypt for the abolition of the capitulations there has been followed closely in China by a renewal of the clamor for the abolition of extraterritoriality. Beginning in Shanghai, the agitation is being whipped up by the formation of committees by various civil bodies and the issuing of numerous proclamations and petitions to the Central Government. The Chinese press is playing it up, and once more this question threatens to become a pet grievance all over the country.

This office has often expressed the belief, and now reiterates it, that the nature of the Chinese has not changed recently; that they will take the high hand as soon as they feel pressure relaxing; that fear of Japan has now decreased to such an extent that the friendship of the other powers does not seem so vital to the Chinese, and that they therefore may be expected to haul out old grudges against the foreign nations, of which the above is an indication. For some time past the shadow of Japan has been heavy over the land, and other matters were pushed into the background. Now that further aggression by Japan seems unlikely for the time being, the urge to assert themselves before the world finds an outlet in this renewal of talk about extraterritoriality.

It is significant that the recent howls for war with Japan have died down so completely; if they were sincere, and if China feels that she has consolidated her power and unified her government, the apparent vacillation of Japan and her change of attitude would seem to indicate that this is a fine opportunity to correct some of the wrongs and abuses that have been forced on China since 1931. Smuggling, for instance. Or the East-Hopei Government. Or the Chahar occupation. But the Chinese know that to proceed along such lines means playing with fire, and they prefer making a noise about a question that will not lead them directly into hot water. If, as in the past, they can get the other powers to give up more of their treaty rights, they will thus succeed in putting pressure on the Japanese by isolating them, and they probably feel that in this way they can influence the latter far more cheaply and more successfully than by openly defying them.

A large factor in this renewal of agitation is the continued general praise of China by foreigners, - visitors, officials, missionaries, etc., - for her undeniable progress in the past few years. The Chinese take these encouraging eulogies at their face value. Because, by purchase and compromise, civil war has been averted, complete unification is claimed. Because a good start has been made on communications, it is assumed that China will soon have caught up to more advanced nations in this regard. Because plans have been adopted for reforms in the machinery of government, in education, in finance, in farmers' aid, etc., etc., it is assumed that these plans are in full operation, or about to be. Because the Central Government has gotten control of a large body of troops and begun to train and equip them properly, it is assumed that China has a modern army. To people who see only what has been done in Nanking and in very restricted experimental areas elsewhere, this progress seems wonderful. To those who nose around among the lao pei hsing in the country and the smaller towns and cities, a hundred years seems a conservative estimate for the time when the effects of the changes can be really felt. Expressed in percentage, I doubt if China as a whole is 10% nearer the status of a dignified modern state than she was ten years ago.

The form of things continues to be accepted as the reality in their claims to equal treatment, and they have been so often told recently that they are making wonderful progress that they can hardly be blamed for believing it. This belief is now once more making itself felt in this renewal of agitation for the abolition of extraterritoriality, which may be expected to increase and be followed at the first signs of yielding by the powers by other demands, such as the rendition of the concessions. Already there are extremists who advocate unilateral denunciation by China if the powers are not immediately responsive. Failure to yield promptly promises to make foreigners generally as unpopular in the near future as the Japanese have been in the recent past.

2. Delicate Situation on Manchukuo-Soviet Border.

An American newspaper man of some military experience who has just completed a nine-months' trip in Russia reports that during February and March of this year there was great military activity on the part of the Russians east of Chita. He travelled with Soviet officials who talked freely about the preparations Russia was making for a possible hostile move by Japan this spring. He observed large numbers of planes, running into the hundreds, at various points along the Amur Railway, as well as infantry, tanks, cavalry and special units. He questioned the Soviet officials about the large stores of forage on hand there, and was told that it was a reserve for possible operations. The concentrations of troops indicated weight principally at two points, - one west of Manchuli for action toward the southeast, and one around Blagovestchensk for action toward the south. All units observed were from the Siberian garrison; no troops had been sent from European Russia. In his opinion, the Russians, in the event of war, expected that Vladivostok would fall, although they intended to defend it; the main efforts were to be directed on Harbin from the directions indicated above, and no great diversion of strength was to be made in the hope of holding Vladivostok. In his opinion, part of the defensive works at Vladivostok were camouflage only, although the place was being strengthened as far as possible with the means available. The Soviet commissars with whom he talked said openly that Russia feared trouble and was taking all precautions to forestall it; they felt that these extensive preparations had prevented it for this year at least.

Russian Embassy officials told me last winter that this spring would be a very critical time, and that they expected then that the chances were heavily on the side of an outbreak of war. At present, whether because of the Soviet action or for other reasons, the crisis seems past.

3. New Assignments in Anhui and Shantung?

Negotiations apparently are proceeding to arrange jobs for the right people. Liu Chen-hua, chairman of the Anhui government, has resigned, "so that he may recuperate," and the Central Government has appointed in his stead a retired Northeastern leader, Liu Shang-ching, so that he too may recuperate.

In Shantung, the rumor runs that Nanking will take a hand by appointing Chiang Po-ch'eng as Governor, leaving Han Fu-chu as Pacification Commissioner, but increasing his monthly subsidy of $800,000 by $400,000. This gives a rough indication of the value of the Governor's job in Shantung.

4. North China Economic Item.

Major Imai, Japanese Assistant Military Attache in Peiping, announced recently that although agreements had not yet been reached, negotiations for the operation of the Lung Yen iron mines and the construction of the Tientsin-Shihchiachwang railway were proceeding smoothly. As a matter of fact, everything seems to be proceeding smoothly in North China, including smuggling, salt, the East Hopei regime, and the absorption of the cotton industry by the Japanese.

5. The Coronation Delegation.

Both the Chinese and the Japanese are agog at what the Chinese delegation to London may bring back with them. The Japanese fear, and the Chinese hope, that one item will be a fat loan. But the Chinese hopes go far beyond that.

They see the possibility of Great Britain's agreeing to abolish extraterritoriality, arranging to help develop China's navy, using her influence to abolish smuggling and the East Hopei regime, and generally do the things that China should be doing for herself. It is difficult to see what China can offer in exchange for these services, or to imagine that Great Britain will embark on a crusade in China's behalf just to secure her friendship. Memories are short in England if 1925 is forgotten so quickly. But a little encouragement always goes to the Chinese head, and they imagine that the often mentioned "great natural resources" of Szechwan and its hinterland are a far greater inducement to foreign capital than they are, and that any indication that China is willing to allow foreign assistance in developing them is a prize that any power would go for, even at the expense of risking war. Great Britain, by her preparations at Singapore and Hongkong, is re-asserting her position in the Far East, but to build up great hopes of important British co-operation, to include even an alliance, with so little to offer in return is exceeding the bounds of possibility.

6. Chinese Fantasy.

Central News reports a plan of the Ministry of Communications for inaugurating shipping service to foreign countries. First, $5,000,000 is to be used in building a big dock-yard capable of turning out ships of 30,000 tons displacement. Then a ship is to be built (25,000 or 30,000 tons) with the "interior fitted in Chinese architectural style." The cost is estimated at $40,000,000, and when completed the ship will be put on round-the-world service.

This is a sample of what slips out of a Central Government office when the psychiatrist is absent.

7. Future Status of Chang Hsueh-liang Still Undetermined.

In spite of reports that Chang Hsueh-liang will be given an important post, nothing has yet materialized. As all the minor figures in the Sianfu rebellion and kidnapping have been rewarded, it seems only reasonable that he, too, should be rehabilitated. Meanwhile he is still reported as resting near Fenghua in Chekiang, and the unusual delay in his case gives rise to the suspicion that perhaps, instead of undergoing a rest, he is undergoing arrest.

8. Chungking-Chengtu Railway.

The chief engineer of this line stated to the undersigned on March 23rd that work on the new line had actually started on March 16th, that he expected the line to be completed in about three years, and that it was a much more difficult job than the Yunnan Railway. There are 36 million cubic metres of cut and fill, - earth and rock. The tunnels and bridges are numerous, and many of the bridges very high, - some over forty metres. The grade will be kept to 1° and the line built for the future. The total length is 530 kilometres, about double the air-line, due to the necessity of avoiding very difficult broken country west of Chungking. Due to the high price of cement (five times the cost at Shanghai) none will be used, a lime cement being substituted. This is expected to be adequate due to the fact that there are no great extremes of temperature to be contended with. All bridges are to be of steel. All of the junior engineer personnel are American trained Chinese; the chief engineer is thus forced to work with American measurements and American methods.

The railway line between Yunnan and Chengtu is to be built by the French and the line connecting Chengtu and Sianfu by the Lunghai Railway. Neither has progressed beyond the stage of preliminary survey.

9. Famine in Szechwan.

Szechwan has suffered from drought since last fall, and alarmist reports about terrible conditions continue to appear in the press. "Already the people are eating bark, leaves, and mud." "Thirty million people are on the verge of starvation," etc., etc. The undersigned recently travelled via Sianfu, Hanchung, Kwangyuan, Chengtu, Kiakiang, Tzeliuching, Neikiang and Chungking to Ichang, and saw at least one section of Szechwan where conditions were supposed to be bad. In the most populous sections of the province, from the northern border to Chengtu, in the Chengtu plain, and in the south from Chating to Chungking, conditions were about as follows:

From the border to Chengtu, no complaints except that there had been no rain and crops would not be as good as usual. To a resident of North China, the crops seem to be very good.

Around Chengtu, due to the Kwanhsien irrigation works, there has never been a shortage. Here the crops were luxuriant, and although some of the smaller ditches were dry and a reduced volume of water was available at Kwanhsien, it did not seem to have affected the crops adversely at all.

South of Chengtu to Kiaking and Ou Mei, the crops were in good shape and water was coming down from the mountains to the west. At Chating, at the junction of the Ya Ho and the Wai Kiang, the water was low but still plentiful.

East of Chiating to Neikiang complaints were frequent about lack of rain. Services were being held and prayers offered for rain in all the villages. Here the farmers had roughly half of their rice-fields under water, and had left the remainder dry, but were breaking them up to plant kaoliang. Approaching Chungking, conditions were better. East of Chungking along the Yangtze was the usual magnificent crop of poppy.

The east central and northeastern parts of the province were not visited. Here the famine may be extreme, but judging from conditions elsewhere, the famine so far consists in the threatened loss of about one-half of a usually abundant crop. This loss will be partly made up by the substitution of kaoliang. Szechwan's population is enormous, and any diminution in the food supply is serious, but as yet food is abundant, varied, and cheap along the route indicated, and it is believed that although belts may have to be tightened later in the year, such reports as have heretofore appeared are highly exaggerated.

10. Belgian Legation to be Embassy.

The Waichiaopu has announced the impending elevation of the Belgian and Chinese legations in China and Belgium, respectively, to the status of embassies.

11. Hopei-Chahar Council's Mission to Japan.

On April 28th, General Chang Tze-chung, Mayor of Tientsin, is to sail for Japan at the head of a mission consisting of some twenty Hopei and Chahar officials and military leaders. As announced, the mission is to be in Japan about a month, studying industrial and military developments. It is significant that it contains in its personnel several regimental and brigade commanders from the 29th Army, and is making the trip under instructions from Sung Che-yuan.

This mission has drawn a great deal of unfavorable comment in the Chinese press, which is outspoken in its denunciation and which uses some hard words in describing the members and their object in going.

Joseph W. Stilwell,

Joseph W. Stilwell
Colonel, Infantry
Military Attache

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COMMENTS ON CURRENT EVENTS

April 24 - May 7, 1937

RECEIVED G/2 W. D. JUN 2 1937

1. Direct Air Service to United States
2. Another Famine
3. Nanking Opposition to Tsin-Shih Railway
4. Yü Hsüeh-chung's Headquarters
5. Attempted Assassination of Liu To-ch'uan
6. Yang Hu-ch'eng's Resignation Accepted
7. Statement by Ch'in Te-ch'un
8. The People's Congress
9. Extraterritoriality
10. New Foreign Affairs Commissioner in Hopei Council
11. East Hopei Day at Nagoya
12. Crisis Averted at Shanghai
13. Statement by Sung Che-yuan
14. Japanese Continental Policy
15. Extension of Kiao-Tsi Railway
16. Rumored Increase in Japanese Garrison at Jehol

1. Direct Air Service to United States.

China is now linked with the United States by a regular seven-day air service. The inauguration of this service, which a few years ago would have been a miracle, passes almost unnoticed now. The Chinese are beginning to take unusual air developments as a matter of course, - besides the American route, China is now linked to Europe by the Imperial Airways through Hongkong, and by the Air France through Hanoi (connected with C.N.A.C.). It is possible that in the near future Eurasia will have developed another line through the northwest, of which Ninghsia is now the most advanced stop.

2. Another Famine.

This time it is the people of Kweichow who are eating mud, with three million doomed unless help is forthcoming at once. All reports on famine conditions in Szechwan, Kweichow, Honan and Shensi should be taken with considerable salt, and the fact remembered that where there is a possibility of getting relief funds from the Central Government, the provincial authorities are always prone to exaggerate.

3. Nanking Opposition to Tsin-Shih Railway.

Nanking maintains its attitude of opposition to the construction of the railroad from Shihchiachuang to Tientsin on the grounds that the line is unnecessary and that its construction violates the principles of railroad building because for a part of the way it will parallel the Tsin-P'u line. But the Nanking protest goes on to state that "the only new line that may be built in North China is the Tsang-Shih line."

Presumably there would be no objection to the building of this line, which would join the Tsin-P'u road at Tsangchow, about sixty miles south of Tientsin. This line would give the Japanese the connection they want with Shansi, but not such complete control as they would have over a direct line to Tientsin.

4. Yü Hsüeh-chung's Headquarters.

Yü Hsüeh-chung, newly appointed Pacification Commissioner of Kiangsu, is to have his headquarters in Tsingkiangpei, and his 51st Army, without which the appointment would not carry much weight, is to be moved from Anhui and stationed in the northern part of Kiangsu.

5. Attempted Assassination of Liu To-ch'uan.

On April 28th an attempt was made to kill General Liu To-ch'uan, commander of the 49th Army at Laiyang, near Loyang in Honan. Liu had been one of the leaders in the Sian rebellion. The motive is not known, - Liu was wounded and sent to Shanghai for treatment; the assailant was killed and remains unidentified.

6. Yang Hu-ch'eng's Resignation Accepted.

The Central Government has accepted Yang Hu-cheng's resignation as Pacification Commissioner of Shansi, and Yang is going abroad "to widen his knowledge and prepare himself for future services to the country." This prompt action in ousting Yang from his position indicates that the Central Government does not repose entire confidence in his professed loyalty and in spite of agreements is not going to leave in important places any of the erstwhile rebels who can be gotten rid of without complications, but it may also have the effect of creating serious doubts in the minds of others as to the sincerity and dependability of promises made by Nanking.

7. Statement by Ch'in Te-ch'un.

General Ch'in Te-ch'un, Mayor of Peiping and supposedly the most trusted adviser of Sung Che-yuan, recently stated that "Sino-Japanese economic co-operation precludes any Chinese-British rapprochement involving the investment of British capital in North China." The source from which the statement sprouted is probably the Japanese North China garrison, and General Ch'in, by issuing it, can save his chief any embarrassment if it goes wrong, but at the same time can give it enough weight to have it carefully considered in Nanking.

8. The People's Congress.

Regulations for the People's Congress, which is scheduled to meet in November to form a permanent constitution and elect a president and other officers, were recently modified by the Central Executive Committee of the Kuomintang.

First, by the regulations adopted in May of last year for the convening of the People's Congress, the National Government was authorized to appoint by nomination representatives either of geographical regions or of professions, the regions in question being those with sparse populations and little political experience such as Sikong and Tibet. The change now made is that the National Government foregoes this right in favor of direct election by the region concerned, thus bringing those regions into line with the rest of the Republic. The National Government was also empowered to appoint representatives for various professions, but this power is now surrendered to the professions themselves. In both these cases the change is towards a fuller recognition of the democratic principle.

The second change is that the National Government is now empowered to appoint as members of the Congress persons of learning or distinction who, for one reason or another, are not sufficiently known to the people to be candidates for election to the Congress. The intention is evidently to give an opportunity to talent, however shy that talent may be or however indifferent to public recognition. The arrangement is not unlike that by which men eminent in science, literature, industry or art are, in some countries, made peers or members of upper chambers. There can be no question that such members could, if they would, contribute much to the efficiency of the chamber of which they are members, and there is every reason why such talent should be directly called upon, without the formality of an election, to serve the State in the Congress that will have such onerous duties to perform.

There seems to be some apprehension that by this method the National Government will be able to "pack" the Congress. However, the People's Congress will consist of at least two thousand members, and the National Government's authority to nominate is limited to 240 members, so that the charge of attempted packing is somewhat fanciful and it is offset by the fact that the Government has foregone the privilege of nominating representatives for certain geographical regions and for the professions. The changes, then, tend on the whole towards a more democratic representation in the People's Congress, and towards its higher efficiency.

As now constituted, the People's Congress will consist of 665 members elected territorially, 380 members elected by the professions, 155 members from special groups, such as the Army, Navy, Manchuria, and overseas Chinese, and 240 members to be appointed by the Central Government.

9. Extraterritoriality.

✓ The agitation for the abolition of extraterritoriality which started out recently in a burst of enthusiasm, has not been kept up at the same tempo, but the present lull is probably only the prelude to more talk.

The nationals of thirteen powers, - Germany, Austria, Russia, Mexico, Chile, Bolivia, Persia, Finland, Poland, Greece, Turkey, Latvia, and Czechoslovakia, - are now under Chinese jurisdiction, and in the absence of diplomatic representatives in China, jurisdiction has been assumed over the Spanish.

The nationals of the United States, Great Britain, France, Japan, Brazil, Peru, Belgium, Italy, Portugal, Denmark, Norway, The Netherlands, Sweden and Switzerland still retain extraterritorial privileges.

10. New Foreign Affairs Commissioner in Hopei Council.

Mr. Wei Tsung-han has been appointed to head the Foreign Affairs Commission in the Chi-Ch'a Council. The former chairman, Mr. Chia Teh-yao, was not acceptable to the Japanese; the present incumbent, although an unknown quantity, is not expected to do more than sign where indicated.

11. East Hopei Day at Nagoya.

The Chinese reaction to the "East Hopei Day" celebration at the Nagoya Exposition in Japan was distinctly unfavorable. For the Japanese to talk about sincerity in the relations of the two countries and at the same time to have Yin Ju-keng broadcast a speech in Japanese at the Exposition attacking the constituted government of China does not indicate a serious desire to clear up misunderstandings.

12. Crisis Averted at Shanghai.

With the apology of the parents of the child who stuck out his tongue at a sentry of the Japanese naval landing party at Shanghai, the ruffled feelings of the Japanese have been appeased. This incident ranks with the pear-cores which were thrown out of a Shanghai restaurant window onto a Japanese marine, and with the hair-pulling suffered by a Japanese schoolgirl in Tsingtao, for which full satisfaction has been obtained.

13. Statement by Sung Che-yuan.

The dominant position of Japan in North China is well shown by the public statement by Sung Che-yuan recently reported in the Japanese press, that "the relations of China and Japan in North China could be adjusted without touching the political problems presented by the existence of the East Hopei Government and the Chi-Ch'a Council." Since Nanking has definitely made the point that no adjustment is possible without the settlement first of these political questions, this statement is highly significant. Sung elaborated his remarks by saying that he was "resolved to help Sino-Japanese economic collaborations in North China independently of all local problems relating especially to the East Hopei Anti-Communist Autonomy Government and the Hopei-Chahar Political Council." He specified the Lung Yen mines and the Tsangchow-Shihchiachuang railroad, and said there was no political obstacle in the way of these projects, the only matter remaining to be settled being the investment of Japanese capital.

Sung, of course, is near the fire. His position depends on his satisfying the Japanese, and this statement indicates plainly how much regard he has for pronouncements by Nanking. Here is something definite, - Nanking professes to want what the Japanese can hardly be expected to consider; Sung openly states a policy which is exactly what they want, thus weakening the hand of the Central Government. Sung is carrying a heavy load; practically he lives under the threat of an army of occupation, and unsupported he cannot be expected to do anything but what he does. The issue is up to Nanking, and the issue is the existence of East Hopei as a smuggling base. If the Central Government were courageous enough and powerful enough, it could retake it by force, in spite of the Tangku Truce, because the Japanese profess that the whole matter is a domestic concern for China; but the Chinese know the inevitable result of moving troops into East Hopei. They would have to fight, and they are not ready for such an extreme. The alternative is a tariff revision with lowered rates on the articles that form the bulk of the smuggling trade, but the Chinese are not ready for this either, and until they are, the situation can only float along as it has in the past.

14. Japanese Continental Policy.

A Reuter dispatch of April 26th from Tokyo indicates how a part of the Japanese press at least looks on any prospect of foreign interference with Japanese plans. It reads as follows:

"The Japanese authorities are generally inclined to believe in the report that the Nanking Government is planning to form a collective security system for the Pacific in conjunction with Great Britain, the United States, and other Powers as a means of checking the growth of Japanese influence in China," says the Nichi Nichi.

"Japan," the journal declares, "will maintain a firm attitude vigorously to oppose such a plan as being absolutely incompatible with the fundamental principle of the continental policy she has been following since the Manchurian Incident in October, 1931.

"It must be noted," the Nichi Nichi proceeds, "that in pursuance of her classic stratagem of playing off one foreign country against another, China followed a policy of trying to check the Japanese advance in China with the assistance of the League of Nations. The League of Nations, however, has lost its influence in international politics, apart from the fact that Japan has already withdrawn from that organization.

"In these circumstances, it is believed that the Nanking Government has started preparing for the establishment of a new powerful collective guarantee system with a view to the execution of China's traditional stratagem. This policy on the part of the Chinese is likely to be all the more strengthened because the present Chinese Foreign Minister, Dr.

Wang Chung-hui, is a staunch advocate of dependence on Europe and America and the League of Nations.

"In this connection, mention must be made of the fact that the relations of Japan with China are vital from the standpoint of the security of Japan's existence and, as such, are entirely different from those between China and Great Britain and the United States, which are based on the efforts of the latter nations to promote their own prosperity. It must also be mentioned that Japan withdrew from the League of Nations because the continuance of a collective guarantee system in Eastern Asia would be a great obstacle in the way of the execution of her continental policy.

"The authorities are determined, therefore," the Nichi Nichi concludes, "to oppose any plan to create a collective guarantee system in the Pacific for the obvious reason that it would run counter to the continental policy of Japan and thus constitute a menace to the exercise of the right of Japan to exist as a nation."

15. Extension of Kiao-Tsi Railway.

Work is scheduled to start on July 1st on the westward extension of the Tsingtao-Tsinan railroad from Tsinanfu to Liaoch'eng (formerly Tungch'angfu). The plan is later to push this line through Taming to Changte, where it will connect with the Peiping-Hankow line, and give lateral communication with the Tientsin-Pukow railway north of the Yellow River. The stretch from Tsinan to Liaoch'eng is about fifty miles long.

16. Rumored Increase in Japanese Garrison at Jehol.

The inspection trip recently made by General Uyeda, Commander of the Kwantung Army, to Jehol, and his conferences there with Japanese officers stationed in Chahar and Suiyuan, have given rise to rumors that the existing Japanese garrison would be reinforced by one brigade. Unless they are concerned over the Suiyuan situation, there is little reason for the Japanese to add to the strength of the garrison so materially.

Joseph W. Stilwell,

Joseph W. Stilwell
Colonel, Infantry
Military Attache

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COMMENTS ON CURRENT EVENTS

May 8—21, 1937

RECEIVED G/2 W. D. JUN 16 1937

1. Great Britain Steps Into the Picture
2. Shake-up in Manchukuo
3. New Japanese Counsellor at Peiping
4. Pei-ning Railway Head Impeached
5. Income Tax
6. Budget for 1937-1938
7. Liu Yu-yeng's Trial
8. Tientsin's Drug Industry Flourishing
9. Through Air Service to Japan
10. Mystery of the Floating Corpses
11. Japanese Concern over Anti-Japanese Feeling in North China
12. Renewal of Student Stupidities

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E.O. 11652, Sec. 3(E) and 5(D) or (E)
OSD letter, May 3, 1972
By , NARS Date 6-26-74

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1. Great Britain Steps Into the Picture.

Since 1931 Japan has held the center of the stage in East Asia, practically undisputed; now it begins to look as if there might soon be another actor in the play. The British, who for a while seemed to acquiesce in the growing influence of Japan in the orient and their own gradual loss of prestige, have now shown that they are still definitely to be reckoned with. They have materially strengthened their Singapore base and are preparing to make the Hongkong defenses powerful enough to compensate for a doubtful situation in the Philippine Islands when the United States get out. They have shown an interest in China's welfare and development, helped her to stabilize her currency, and appear disposed to loan her money.

These developments have had their effect in Japan. While China stood alone, the Japanese continental policy could go merrily on, the only factor to worry about being China's ability to resist, and up to the present this has not worried them much. But within the past two years Russia has so improved her Siberian defenses as to be a serious threat on the north, the Chinese morale and will to resist has seriously strengthened, and the aggressive spirit of the Japanese people has begun to falter. Japan is now faced with an armament race in which she cannot compete successfully and which will leave her relatively weaker the longer it continues. For China at this juncture to find a backer, especially a great naval power like Great Britain, would of course have a serious effect on Japanese policy, and events tend to prove that the Japanese fear it is true. The size and standing of the Chinese delegation to the coronation gave rise to rumors that important business would be done in London, including trade agreements, loans, and even defensive guarantees, and although these rumors undoubtedly exaggerated the truth, there was enough in them to start the Japanese off on improving their own relations with Great Britain. The

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desire of the Japanese to be on good terms with the British once more is clear, and the desire of the British to restrain Japanese expansion may be assumed, but the extent to which the British may go in placating Japan without arousing the suspicions of the Chinese is a ticklish matter. Neither power can be accused of altruism, and their past records lay them both open to criticism.

The Chinese have not forgotten that Great Britain and Japan were in alliance from 1902 to 1922, that that alliance was what made it possible for Japan to fight the Russians in 1904-5, that the annexation of Korea followed, and that Great Britain stood mute when the twenty-one demands were presented in 1915. It was not till the hostile feeling in her own colonies and the United States forced her hand that Great Britain gave up the alliance, and even after that the bad effects persisted in China, with distrust of Great Britain culminating in the events of 1925-1926. Great Britain has since shown a friendly interest in China, but Japan's moves since 1931 have resulted in a threat to keep everybody, including Great Britain, out of East Asia, and this is more than the latter ever counted on when she was backing Japan. In other words, it suited her policy to back Japan till the latter grew too strong and dominating; now she seeks means to curb the erstwhile ally and retain her own hold in China. But Japan has grown, and instead of being told must now be placated. Japan in turn feels strong, but not strong enough; if she can find an accomplice, the spoils are big enough to share.

But how about the third party, which in these little dickers is sometimes lost to sight? China wants help badly, but is she willing to pay the price? Her position is difficult, - she wants friends and money, and an influence to check further Japanese aggression. Any solution that does not necessitate fighting appeals to her, and the Japanese reaction to Great Britain's advances indicate that this may be one. But if the Chinese come to believe that the British and Japanese are co-operating, primarily for their own purposes, that Japan is to have a free hand in the north while Great Britain dominates the Yangtze valley and the south, thus re-establishing the old sphere of influence policy, then, in their present state of mind, the Chinese will certainly conclude that they are being sold out and carved up. Already the Chinese press is saying that friendship and co-operation with Japan would spell "doom" to British influence in China; a tremendous feeling against Japan has grown up in this country, and the feeling might easily be extended to Japan's friends.

This is the difficulty that faces Great Britain. No matter what concessions Great Britain may get the Japanese to make to China, it is certain that China will be called on to make some to Japan, and inevitably suspicion will be aroused against Great Britain. Great Britain, in order to work with China, will have to keep clear of suspicions that she is really working with Japan. It does not seem possible that Great Britain could so soon forget the past as to tie up again with Japan, in the face of public opinion in the colonies and the United States, and risk a renewal of the hostile feeling she encountered in China in '25 and '26. It seems more probable that she will adopt the role of good friend and mediator, in the hope of gaining something from both sides, but she is skating on thin ice in dealing with the Japanese, and the extent to which she goes in responding to their overtures for a rapprochement will tell the story.

2. Shake-up in Manchukuo.

On May 8th a radical reorganization of the Manchukuo Government was announced. The former general organization of the Government and the most important changes to be effected are as noted below:

A. The highest central administrative organ, under the Emperor, is the State Council, headed by the Prime Minister, and consisting of nine departments, or ministries:

(1) The Department of Civil Affairs. Reorganized and renamed the Department of Public Life. Its most important functions are transferred to a Bureau of Civil Affairs, responsible directly to the Prime Minister, but controlled by the General Affairs Board (see B, below).

(2) The Department of Foreign Affairs, functions transferred to a Bureau of Foreign Affairs, similar in status to the Bureau of Civil Affairs.

(3) Department of Defence. Abolished and functions transferred to a new Department of Peace Preservation.

(4) Department of Finance. Reorganized, and renamed the Department of Economics.

(5) Department of Industry. Retained.

(6) Department of Communications. Retained.

(7) Department of Justice. Retained.

(8) Department of Education. Abolished and functions transferred to Department of Public Life.

(9) Department of Mongolia Administration. Abolished and functions transferred to Hsingan Bureau, which is directly responsible to the Premier under the General Affairs Board.

B. General Affairs Board. Directly attached to the State Council and controlled by the Prime Minister. Handles affairs relating to secret matters, personnel, accounting, and the requirements of the various departments. Functions increased and made more important under the reorganization.

C. Supervisory Council. Under direct control of the Emperor, independent of the State Council, entrusted with supervision and auditing. Abolished and functions taken over by Auditing Bureau of General Affairs Board.

D. The Legislative Council, charged with drafting and approving laws and budget bills. Status of this organ under the reorganization not clearly understood.

E. The Privy Council. Gives its opinion at the request of Emperor on imperial ordinances, laws, budget, negotiations and treaties with foreign countries, and other state affairs; and may also submit its opinion on important matters to the Emperor without his request. Under the reorganization, this body is reorganized, its functions curtailed, and the right of presenting opinions to the Emperor taken away.

After the reorganization goes into effect on July 1, 1937, the principal organs of the Manchukuo Government will be as follows:

Board of General Affairs: Bureau of Foreign Affairs, Bureau of Civil Affairs, Hsingan Bureau, Auditing Bureau.

Department of Peace Preservation: Secretariat, Bureau of General Staff, Bureau of Military Affairs, Bureau of Police Affairs.

Department of Public Life: Secretariat, Bureau of Education, Bureau of Social Affairs, Bureau of Public Health.

Department of Industry: Secretariat, Bureau of Agricultural Affairs, Bureau of Mining, Bureau of Construction, Bureau of Colonization.

Department of Economics: Secretariat, Bureau of Commercial Affairs, Bureau of Taxation, Bureau of Credits.

Department of Communications: Secretariat, Bureau of Railways, Bureau of Roads, Bureau of Marine Navigation.

Department of Justice: Bureau of Civil Affairs, Bureau of Criminal Affairs, Bureau of Penal Administration.

Under the new organization, the only state minister is to be the Premier, but former ministers are to retain the dignity and privileges of their rank.

One of the more important results of the reorganization will be the increase in the powers of the General Affairs Board, in which Japanese authority has always been particularly strong. The President of the Board is to be the chief aide of the Premier.

The reorganization also directs the abolishing of the posts of the Japanese advisers to the various departments of the government. It is believed, however, that although the advisers may be nominally abolished, their present functions will be retained in some other form.

The day before the announcement of the reorganization of the government was made, news of an extensive reshuffling of Manchukuo high officials was made public. Some of the shifts were in departments which were abolished the next day, but it is understood that appointees to posts eliminated by the reorganization will retain their titles and some share in the responsibilities of government. The following were the most important changes:

Chang Ching-hui remains Premier and concurrently Minister of Foreign Affairs and Mongolia Administration.

Three State Ministers, Mr. Chang Yen-ching, Foreign Minister; Mr. Ting Chien-hsiu, Minister of Industry; and Mr. Feng Han-ching, Minister of Justice, "voluntarily resigned to make way for younger officials." In addition, Mr. Lo Chen-yu, President of the Supervisory Council; Mr. Tseng Yung, member of the Privy Council; and another Privy Councillor, Mr. Pao Hsi, also resigned.

Mr. Chi-mo-te-se-mu-pi-lo, Minister of Mongolia Administration, was appointed to the Privy Council.

Newly appointed members of the Cabinet are:

Minister of Civil Affairs, Mr. Sun Chih-chang (former Minister of Finance).
Minister of Finance, Mr. Han Yun-chieh (former Mayor of the Hsinking Special Municipality).
Minister of Industry, Mr. Lo Ying-huan (former Minister of Civil Affairs).
Minister of Justice, Mr. Chang Huan-hsiang.
Minister of Foreign Affairs, and Minister of Mongolia Administration, Premier Marshal Chang Ching-hui (concurrently).

The exact significance of the reorganization of the Manchukuo Government and of the many changes in officials is not understood at the present time.

3. New Japanese Counsellor at Peiping.

Mr. Morishima, formerly director of the East Asia Bureau of the Japanese Foreign Office, has been appointed a counsellor of embassy and has relieved Mr. D. Kato at Peiping. Mr. Kato goes to Hankow as consul-general.

4. Pei-ning Railway Head Impeached.

According to Central News, a bill of impeachment has been drawn up by the Control Yuan against Mr. Chen Chueh-sheng, Managing-Director of the Peiping-Liaoning Railway, who is charged with having neglected the anti-smuggling orders of the Central Government and having not allowed Customs agents to exercise their duties.

So this is the Central Government's solution to the smuggling scandal, - Mr. Chen should have stopped it, and since he didn't, he is to be punished severely. The Chinese can be depended upon, even in the most unlikely circumstances, to find a whipping-boy to divert attention from their own faults of commission or omission.

5. Income Tax.

Nanking expects the income tax collections to exceed the budget estimate of five million for 1936-37. $4,000,000 had been collected up to the end of April, but most of this came from government salaries and interest on securities and deposits. These sources are easily tapped; it will be a different matter to extend collections to anything like the extent it is done in other countries.

6. Budget for 1937-1938.

China's budget for next year is balanced at roughly $1,000,000,000. Increased collections of salt, customs and consolidated taxes are expected.

7. Liu Yu-ying's Trial.

On May 15th, the trial of Liu Yu-ying for the murder of Yang Yung-tai began in Hankow. On trial with Liu are nine accomplices. Besides the successful attempt on Governor Yang of Hupeh, the accused are indicted for plotting against Chiang Kai-shek, Chang Ch'un, Chiang Tso-pin, and Yu Fei-peng.

8. Tientsin's Drug Industry Flourishing.

Seventy-three plants for the production of habit-forming drugs are reported to be operating in Tientsin. Besides the local market, shipments abroad find an outlet through Shanghai, which conceals their Japanese origin and tends to throw the onus on the Chinese.

9. Through Air Service to Japan.

The Hui T'ung Company announces the opening of through air traffic between Tientsin and Tokyo on June 1st, by connections with Japanese transport companies.

10. Mystery of the Floating Corpses.

Last spring and summer some 300 bodies were found in the Hai Ho between Tientsin and Taku. Up to date this year 110 more have been recovered. Practically all the corpses are those of adult males, mostly farm hands. Since very few have been claimed, it is thought that they were only casually in Tientsin at the time of their death. Many of the bodies had wounds.

The whole affair so far remains a mystery. On May 10th the Chinese caught five coolies carrying corpses to be dumped into the river and arrested two of them, who confessed that they were employed by a "certain foreign country" (i.e. Japan) and got sixty cents for disposing of each corpse. The corpses apparently are coming from the drug dens in the Japanese concession, but the Japanese authorities are of course not making it easy for the Chinese to find out the facts, and the Chinese simply do not dare to force the issue.

11. Japanese Concern over Anti-Japanese Feeling in North China.

Domei reports the concern of the Japanese authorities over a revival of anti-Japanism in North China. This boils down to worry because (1) a Japanese primary school child got into a fight in Peiping; (2) Japanese in motor-cars in Kalgan have had stones thrown at them; (3) the Chinese press in Tientsin claims that the Japanese are responsible for the dumping of bodies in the Hai Ho; and (4) the Taiyuanfu police arrested some employees of the South Manchuria Railway and China Development Company after a dispute over rickshaw fares.

12. Renewal of Student Stupidities.

On May 18th a crowd of about 400 students of the Northeastern University at Peiping, including 100 girls, went to the Ch'ienmen railway station and boarded the Shanghai express without tickets, demanding a free ride to Nanking so that they might present a petition to the Central Government authorities. The petition covered three points:

> (1) Re-instatement, as Chancellor of the University, of General Chang Hsueh-liang, former commander of the North-Eastern Army, which staged the famous Sianfu coup d'etat of December;
>
> (2) Reversal of the Ministry of Education's order transferring the University from Peiping to Sianfu as a national institution; and
>
> (3) Restoration of the $25,000 monthly grant which the Ministry withdrew a few months ago as a result of the students' opposition to the new Chancellor, Mr. Tsang Chi-fang, appointed by the Government.

As the authorities would not allow the train to depart with the students aboard, and the students would not let it go without them, the train remained at the platform. An attempt to shunt it to a siding was foiled when a party of about fifty students squatted on the track in front of the engine.

The legitimate passengers eventually left at 9:00 o'clock by the Peiping-Mukden express for Tientsin, where those bound for points further south could obtain a connection.

A large squad of police stood by throughout the proceedings, but did not attempt to interfere with the students. The police said they were waiting for instructions from headquarters; the station authorities said they intended to do nothing until the police acted; and as a result the students camped out all night on the train and station platform.

On May 19th at dawn the students occupied the Pukow train which was due to leave at 7:55, and the railway authorities then capitulated and arranged a special train for the students which left at 5:00 p.m. for the south. No coercive measures were used by the constituted authorities during the affair, and the station force even supplied the trouble-makers with hot water and bread.

✓ This successful hold-up of a main-line railway by a small band of disgruntled children will be the cause of trouble elsewhere. Yielding to their demands here will simply encourage other parties all over China to imitate their action and rush to Nanking on free tickets to air their grievances in the national capital. If this is a demonstration of the rule of law and order in New China, it does not speak very well for the future.

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COMMENTS ON CURRENT EVENTS

May 22—June 4, 1937

1. Szechwan Famine Relief Funds
2. Protesting Students Turned Back
3. High-ranking Japanese Officers in China
4. Progress of Legislation
5. Ch'en Chüeh-sheng on North China
6. Smuggling
7. The Swatow Affair
8. Attack on Japanese Fishing Boat
9. Geological Discovery
10. Renewal of German-Manchukuo Trade Agreement

RECEIVED G/2 W. D. JUN 29 1937

1. Szechwan Famine Relief Funds.

The mystery of the missing million has now been cleared up. The Central Government had issued a million in bonds for relief purposes, but the Szechwan authorities after a short wait announced that the money had never reached them. It now develops that the bonds were being negotiated, a matter that took some time in view of the poor market. The total realized by the sale was $714,000, a tidy profit for the banks if and when the bonds are paid off. The money has now been forwarded, but the way it reaches the famine sufferers is typically Chinese, if recent reports are correct. These state that the money is being held in Chengtu and that an equivalent amount, apportioned to the various districts in the province, has been credited as received in taxes. The joker in this is that taxes have already been collected far ahead, and the districts can't raise any more money anyway.

The probabilities are strong that the famine will continue to be played up to create further opportunities for frenzied finance, and that the people who need it will never see any of the relief money.

2. Protesting Students Turned Back.

The 300-odd students who seized railroad transportation in Peiping and were promised a free ride to Nanking to protest over the move of the Northeastern University to Sianfu, were stopped at Lichuan in Kiangsu and sent back home. They were told that a telegram from Nanking had promised the restoration of the money grants to the University and the dropping of plans for the transfer to Sianfu. These assurances were received with mental reservations, which seem to be justified in view of the Ministry of Education's announcement on June 2nd that the University would be moved to Sianfu and that all students will be required to go there at the end of June. The points raised by the students have thus been entirely ignored and the promises made to get them to give up their agitation have all been violated.

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3. High-ranking Japanese Officers in China.

The recent tours of General Kita and General Abe in central and south China, of Admiral Takahashi up the Yangtze, and of Admiral Suetsugu in North China have caused considerable uneasiness among the Chinese, who believe this activity is the forerunner of some kind of action. The press is attempting to link these activities with the Swatow incident.

4. Progress of Legislation.

That Chinese young women should wear hats in order to make their formal dresses complete was proposed in a bill submitted by Madame Wang Ching-wei, wife of the Chairman of the Central Political Council and herself a member of the Central Supervisory Committee, at the weekly meeting of the C.P.C. recently.

"A formal dress is incomplete without a hat," the bill says, "and head-wear is beneficial in that it provides protection against the blazing sun."

The bill, which further recommends the addition of hats to the uniforms of girl students, will be referred to the Executive Yuan and the Ministry of Education for consideration.

Meanwhile many Chinese are still talking about going to war with Japan, a first-class power.

5. Ch'en Chüeh-sheng on North China.

Ch'en Chüeh-sheng, managing director of the Peining Railway, in a recent speech called for co-operation by the people with the authorities in the present difficult situation, and stated that while General Sung remained in power no adverse changes would be made in the local set-up.

Mr. Ch'en further said that General Sung would never yield to outside pressure or sacrifice national rights. "While we desire to be loyal to our peaceful stand, we hope that the other side will respond in a similar spirit and refrain from bringing pressure to bear on us. If the two sides live at peace it will not be difficult to work out a gradual solution of the various outstanding problems."

Considerable attention is paid this statement in the Chinese press. Although on the surface everything seems calm, there is an atmosphere of uncertainty and nervousness that indicates the fear of the Chinese that unpleasant developments are approaching. The attitude of Chinese officials in the Chahar-Hopei Council indicates that the Japanese are again putting some kind of pressure on them.

6. Smuggling.

There has recently been a recrudescence of smuggling and its attendant lawlessness in North China. A typical incident is the seizure by armed Japanese rowdies of the Hsiaohsimen in Tientsin on May 12th. A band of ronins kidnapped several Chinese police and customs agents, disarmed them, and escorted several truck-loads of contraband through the gate. Since then the practice has been repeated several times, the procedure being to occupy the barrier, beat up any customs agents or other police who interfere, and then pass the trucks through to agents waiting outside to convey them to the interior. The protests of the customs authorities to the Japanese Consul-General have so far gone unanswered.

The process of introducing contraband into Tientsin is very simple. The Peining Railway hauls from East Hopei any goods delivered for shipment, the railway authorities claiming that it is the business of the customs to prevent smuggled goods from reaching the railroad. At Tientsin the railway police claim that their duty is simply to maintain law and order along the line. While the customs officers and the railway police squabble over who is responsible, the cargo is carried off by Japanese and Korean ronin, unmolested. The city police do not dare to interfere. Distribution of the contraband, as practised at the Hsiaohsimen, is a simple matter also, and under such conditions the trade will continue to flourish indefinitely.

The extent to which the "special trade" has grown is shown in the following report released by Central News on June 2nd:

> "By actual count, no less than 5,200 items of contraband, in sacks, cases, or other containers, have been brought into Tientsin by train from East Hopei during the past two days. Invariably, a group of waiting roughs, all armed with wooden clubs, iron bars or other weapons, rushes to the train as it pulls into the station and immediately begins to unload freight that has evaded its dues.
>
> "Many other roughs, handicapped by lack of capital, are doing the same as they did a year or so ago, when they were smuggling out silver dollars, namely, surreptitiously smuggling in goods in suitcases, trunks and bundles. A considerable quantity of smuggled goods has been brought in this way, though it is impossible to make even a rough estimate of the quantity.
>
> "According to investigations, there was a drop of 1,034,883 customs Gold Units (about $2,200,000 of Customs revenue) in April as a result of smuggling along the Peiping-Liaoning Railway.
>
> "The descriptions and amount of contraband shipped to this port on P.N.R. trains during the month in question are tabulated as follows:

Sugar	41,417 sacks
Artificial silk	452 bales
Petroleum	206,626 cases
Gasoline	3,765 cases
Paper	104 bales
Cotton piece goods	9,135 bales
Miscellaneous	28,529 cases

The figures available for the week from May 17-25 are as follows:

Artificial silk	1,845 bales
Cotton piece goods	1,164 bales
Sugar	1,145 sacks (about 103,050 catties)
Petroleum	162 cases
Miscellaneous	4,339 cases"

7. The Swatow Affair.

On May 22nd in Swatow, Kwangtung Province, a Japanese consular official named Aoyama and four other Japanese moved from where they were living to a new location. Local police regulations require registration under such circumstances. The Japanese did not report the change, and when two Chinese police called at their new dwelling about the matter there was a dispute and a fight. The Japanese claim that the Chinese police made an unprovoked attack on the Japanese; the Chinese claim that the Japanese did the same thing to them. Aoyama was arrested and taken to the Chinese police station, but later released on the representations of the Japanese Consul.

Given the well-known disregard and contempt of the Japanese for Chinese laws and regulations, the probabilities are that the Chinese story is nearer the truth than the Japanese. However, it suited the Japanese to make a big story out of the affair, and besides making strong protests of this "violation of their extraterritorial rights," they sent four warships to Swatow. The Tokyo Foreign Office in a statement listing other alleged anti-Japanese incidents in Swatow since January of this year, characterized their continual occurrence as "grave insults to the Japanese Empire," and the Japanese press declared that Sino-Japanese relations had suffered a serious set-back as the result of this and other recent incidents, such as the firing by customs guards on a Japanese trawler off Taku, the transfer of Central Government troops to the Tsingtao area, and alleged assaults on Japanese nationals in the Kiaochow Bay district.

The Chinese press sees political motives behind the Swatow incident, finding it hard to believe that the Japanese would get so excited otherwise. It believes that the Swatow affair is either a deliberate attempt by the army to create a diplomatic incident and so draw the attention of the Japanese people from the critical political situation at home; or that Japan is using this affair to test Great Britain's reaction towards Japanese intervention in South China; or that Japan is feeling out China to see her reaction to "strong measures." To date there have been no serious developments, and the affair promises now to lose significance and take its place with many other similar incidents, any one of which might have caused far-reaching trouble. Whether or not the Chinese press is right in seeing in it a deliberate premeditated action, it at least shows Japan's readiness to risk a rupture anywhere in China when the rights, or assumed rights, of her nationals are infringed.

8. Attack on Japanese Fishing Boat.

On May 23rd a Chinese customs cutter fired on two Japanese fishing boats in the offing of Taku. One Japanese was reported wounded in the arm. The Japanese made the usual strong protest, claiming that inasmuch as the affair occurred some eighteen miles out at sea, it was a premeditated attack and a violation of international law. They are especially indignant because this affair followed the Swatow incident so closely. The Chinese have not as yet made any move in the matter.

9. Geological Discovery.

Fossil remains of four more teeth belonging to the Peking Man have been discovered at Chowkoutien near Peiping. This is of interest as confirmation that the ancient Chinese, at least, had teeth, and in view of the fact that Chiang Kai-shek has recently had more of his pulled out.

10. Renewal of German-Manchukuo Trade Agreement.

The existing German-Manchukuo Trade Agreement of three years standing expired on May 31st, and was renewed for another three years on May 21st. It may be revised on and after January 1, 1938, in case either party communicates to the other its desire for such revision. If revision cannot be accomplished within four months after negotiations open, the agreement will automatically become void on the 1st of June following notification to this effect. For a further renewal after May 31, 1940, the contracting parties are to open negotiations before April 1st of that year.

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COMMENTS ON CURRENT EVENTS

June 4 - 18, 1937

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1. Tientsin Narcotic Situation
2. National Budget for 1937-1938 (July 1-June 30)
3. The Russian Executions
4. Health of Chiang Kai-shek
5. Chiang Kai-shek's Book Suppressed in Pengpu
6. Changes in Manchukuo Government
7. Japan Co-ordinates with Manchukuo
8. North China Garrison to Take Over in East Hopei
9. The Swatow Affair
10. Suiyuan-Sinkiang Truck Service
11. Trial of Liu Lu-yin
12. Aftermath of Student Demonstration
13. No Income Tax for the Japanese
14. The Hui Tung Aviation Company Defies Nanking
15. Military Training for Students
16. No More Demonstrations by Students in Peiping
17. Another British Railway Loan

1. Tientsin Narcotic Situation.

The Japanese were apparently stung by the recent unfavorable publicity they received in Europe from the disclosing of facts connected with the manufacture and shipping of narcotics. In the Japanese concession at Tientsin the Japanese police have put on a clean-up campaign, and raided numerous opium and heroin dens. Narcotics seized on June 14th are reported to amount to 150,000 dollars worth. The targets in this campaign will of course be the Chinese dealers, and after the first burst of enthusiasm the zeal of the reformers may be expected to dwindle considerably. The traffic has proved too lucrative to be abandoned entirely, and although the Counselor of Embassy at Peiping, Mr. Kato, has issued a defense of Japan's position in the matter, and the Tientsin Japanese authorities have told the Korean dealers that they must look for a new profession, no one seriously believes that this will prove a sincere effort to abate the scandalous business in North China.

2. National Budget for 1937-1938 (July 1-June 30).

The National Budget for the 26th fiscal year, July 1, 1937 to June 30, 1938, is now being examined by the Legislative Yuan and will be submitted to the next general session. Promulgation is expected before July 1st.

The budget shows an increase of about ten million dollars over that for 1936-1937. The estimates are as follows:

REVENUE

Customs	$369,267,522
Salt	228,625,553
Tobacco and Wine Taxes	26,046,642
Stamp Tax	11,300,000
Consolidated Tax	175,617,650
Mining Tax	4,751,638
Stock Exchange Tax	170,000
Income Tax	25,000,000
Inheritance Tax	2,000,000
Banking Tax	1,600,000
Income from Government Property	4,143,913
Income from Government Enterprises	2,413,430
Government Administrative Receipts	13,847,094
Government Business Receipts	16,073,787
Remittances (Provinces & Municipalities)	3,600,040
Miscellaneous	116,192,209
Total -	$1,000,649,478

EXPENDITURES

Party	$ 7,311,440
National Government	17,962,546
Military	392,499,952
Ministries, Commissions, etc:	
Interior	6,188,932
Foreign	9,435,816
Finance	69,232,090
Education	42,934,368
Judicial	4,315,849
Industrial	3,072,312
Communications	5,056,595
Mongolian and Tibetan	2,500,362
Subsidies	31,015,076
Pensions	6,678,497
Loan Service	324,693,754
Capital Fund for Goverment Enterprises	70,000,000
Famine Relief Fund	3,000,000
Contingency Fund	4,751,889
Total -	$1,000,649,478

3. The Russian Executions.

On the subject of the recent purge in the Soviet Army, opinion in the Russian Embassy here is that a nest of traitors has been cleaned out and that the result will be highly beneficial. Instead of harming the morale of the army, these officials believe that on the contrary the Russians generally will take this action as a proof that the highest standards will be maintained. They also look upon this as a proof that under no circumstances can there be any traffic or accommodation with the Germans, and they state that this clean-up has reached all the doubtful elements. Neither Voroshilov nor Blucher is implicated in any way, according to them.

The French Military Attache has a friend who was a prisoner in Germany with Tukachevsky and who says that in his opinion Tukachevsky was a man with whom nothing counted but his own ambition, to which he would sacrifice anything, including his family and his country. The Russian Counselor of Embassy here served in Siberia with Primakov, and believes that he is another of the same stripe. The question naturally presents itself as to why such methods are necessary in a regime which has had twenty years to consolidate itself, and also as to where men of experience and ability are to come from if they continue to be lopped off at the top.

4. Health of Chiang Kai-shek.

Conflicting reports make it impossible to arrive at a definite conclusion as to the seriousness of the injury suffered by Chiang Kai-shek at Sianfu last December. It seems established that he injured his back in a fall while trying to escape from his assailants. It is known that he has been under medical treatment for the injury. Beyond this, except for the inference that may be drawn from his comparative activity, and the fact that he has now cancelled his sick leave, nothing definite has been published.

The injury is probably connected with the displacement of a rib and resultant pressure on a spinal vertebra. An X-ray negative was seen by a reliable Chinese contact in the P.U.M.C., who described it as showing one of the lower ribs on the right side displaced vertically, with a corresponding displacement of the vertebra to which it was attached. He was told afterward by one of the doctors that it was an X-ray of Chiang Kai-shek's back, sent to Peiping for examination, but that no definite conclusion had been reached as to the character of treatment indicated or as to the seriousness of the injury.

5. Chiang Kai-shek's Book Suppressed in Pengpu.

The police in Pengpu, Kiangsu Province, have forbidden the sale of Chiang Kai-shek's book on the Sian rebellion. Pengpu is the headquarters of the 67th Army, former Northeastern Army troops who took part in the rebellion, and since the book comments unfavorably on several high-ranking officers of this army, it is only natural that they should be disinclined to further its circulation in their own bailiwick. The action taken in Pengpu tends to prove that the effects of the rebellion will be felt for some time yet and that whole-hearted co-operation cannot be expected from the losers as long as they continue to be reminded of their shortcomings.

6. Changes in Manchukuo Government.

The change in the organization of the Manchukuo Government carries with it an extensive reshuffle of officials, to take effect July 1st. The Government is stated to have used great prudence in "placing the right men in the right places," and in this connection the most noteworthy point of the reshuffle is the appointment of several officials of the South Manchuria Railway Company to important posts, including that of Vice-Minister of the Department of People's Welfare which is to be created on July 1st.

Premier Chang Ching-hui is to remain at the head of the State Council, which is comparable to a Cabinet. Under the revised State Organic Law, six State Ministers besides the Prime Minister are to be appointed, as follows:

Minister of Public Peace - Marshal Yu-Chi-shan, now Minister of Defense.
Minister of People's Welfare - Mr. Sun Chih-chang, now Minister of Civil Affairs.
Minister of Justice - Mr. Chang Huan-hsiang, now Minister of Justice.
Minister of Industry - Mr. Lo Yung-huan, now Minister of Industry.
Minister of Economics - Mr. Han Yun-chieh, now Minister of Finance.
Minister of Communications - Mr. Li Shao-keng, now Minister of Communications.

Important personnel shifts are also to occur in the General Affairs Board which is to be placed under the direct supervision of the Premier and whose structure is to be reorganized and enlarged under the new State Organic Law with three new offices scheduled to be established with it. Although the heads of ministries all have Chinese names, the "right men" mentioned above are of course all Japanese, and the "right places" are at the elbows of the titular chiefs, who are shown by their able assistants the line on which to sign.

In connection with the July 1st change, two new provinces are to appear in Manchukuo, - Tunghua and Mutankiang. Viscount Rikutaro Oshima, now Director of the General Affairs Department, has been selected as Governor of Mutankiang Province, while the governorship of Tunghua Province is to be assumed by Mr. Lo I-wen, at present Secretary to Premier Chang Ching-hui. The fourteen other provincial heads will be:

Fengtien	Pao Kang	Chientao	Shoji Kanai
Kirin	Yen Chuan-fu	Sankiang	Yu Shen-cheng
Lungkiang	Tadaharu Kamio	Heiho	Hsu Kuei-heng
Jehol	Chin Ming-shih	E.Hsingan	E-lei-chun
Pinkiang	Shih Li-pen	S.Hsingan	Shou Ming-a
Chinchow	Wang Tze-tung	N.Hsingan	Gen.E-erh-chin-pa-tu
Antung	Huang Fu-chun	W.Hsingan	No-la-kaerh-cha-pu

7. Japan Co-ordinates with Manchukuo.

Manchukuo's five-year plan of economic development is already in operation. The Konoye Cabinet has now adopted for Japan a four-year plan to fit in with it which practically makes the two countries an economic unit. The Manchukuo plan calls for an expenditure of some 2,350,000,000 Yen, principally for the increase in production of iron ore and iron products and liquified coal and shale oil, and according to the Japanese press the new Japanese plan will involve the spending of nearly seven billion Yen in addition. The inference is that pressure in Japan for a high degree of national defense and state socialism has made itself felt in spite of capitalistic resistance, and that a Japan-Manchukuo totalitarian state is rapidly coming into existence. The obvious hitch in the program is the source of the ten billion Yen.

8. North China Japanese Garrison to Take Over in East Hopei.

Reports indicate that the Kwantung Army is about to transfer its responsibilities in East Hopei to the Japanese North China Garrison, who will from now on take care of Japanese interests there. At any rate this is believed to be the decision arrived at after a conference at Hsinking on June 7th between General Tashiro, Commanding the North China Garrison, and General Uyeda, Commanding the Kwantung Army. Tashiro returned to Tientsin on June 8th and saw Yin Ju-keng there on the same day, presumably informing him of the change and giving him his orders.

This may mean a weakening in the Japanese attitude towards East Hopei; it would be easier to authorize a change in its status with Tashiro in charge than it would with Uyeda responsible, since the North China Garrison has not committed itself on a die-hard policy. However, Japanese interests continue to seek permits to build plants there, and there are no indications that the North China Garrison will be any less firm in its attitude than the Kwantung Army has been.

9. The Swatow Affair.

As predicted, the Swatow affair (see No. 9558, par. 7) seems likely to be settled without any serious results. Negotiations have been taking place in Canton between Dr. Philip Tyau, Special Foreign Commissioner for Kwangtung and Kwangsi, and Mr. Nakamura, Japanese Consul General in Canton. No terms for the settlement of the affair have as yet been announced.

Four Japanese warships, sent to Swatow soon after the affair occurred, were withdrawn for a time, but have since returned.

10. Suiyuan-Sinkiang Truck Service.

From Paot'ou in Suiyuan at the end of the Suiyuan Railway a private Chinese company operates a trucking service to Hami in Sinkiang, handling native commodities and mail matter. Disturbed conditions in Sinkiang interrupted the service lately, but it has again been resumed, and forms an important commercial link with the far North-West. Shipments are made at intervals by groups of trucks which travel together for protection. The route is covered in about ten days, and runs slightly north of west across the Gobi. About 100 trucks are operated on this service.

11. Trial of Liu Lu-yin.

The trial of Liu Lu-yin, former head of publicity for the Kuomintang, for the murder of Yang Yung-tai, Governor of Hupeh, last summer, ended on June 5th with a verdict of guilty and a sentence of deprivation of civil rights and imprisonment for ten years. Two of his accomplices, Chang Hsueh-chao and Kung Po-chow, were sentenced to death, and five others got prison terms ranging from two years to life. Liu, Cheng, and Kung and one other accomplice, Tsao Ping-yung, were ordered to pay $30,000 to the family of General Yang as damages.

12. Aftermath of Student Demonstration.

As expected, the Northeastern University students here are continuing their disorderly behavior. On June 9th, a group of about twenty of them boarded a train at the Peiping station and dragged off Mr. Wang Tso-shan, a former official of the University, who was on his way to Tientsin, but who was believed to be going to Nanking to confer with the Ministry of Education. Mr. Wang was taken to his house and urged to remind the Nanking authorities that the demands of the students for the re-instatement of Chang Hsueh-liang, the retention of the University at Peiping, and the restoration of the monthly subsidy had not been carried out. The students are opposing the contemplated transfer to Sianfu and refuse to accept the arrangements made by the Ministry of Education. They further demanded of Mr. Wang that he release a foundation fund of $40,000 now on deposit in a Chinese bank in Peiping, and upon Mr. Wang's objecting that the other custodian of the fund, Mr. Wang Shu-han, would have to agree, they accompanied him to Tientsin where they are reported to have secured both the necessary signatures. This little incident, involving kidnapping, extortion, and embezzlement, hardly causes a ripple in the local situation.

13. No Income Tax for the Japanese.

The Japanese press says that no notice will be taken by the Japanese authorities of the Chinese plan to enforce the income tax after July first. It is thought very unlikely in Japan that any government which enjoys extraterritorial rights will agree to the imposition of this tax on their nationals.

14. The Hui Tung Aviation Company Defies Nanking.

The Hui Tung Aviation Company (Sino-Japanese) operates a mail and passenger service between North China, Manchukuo and Japan, but Nanking objects to the composition of the company and has made a formal protest against its operation. The Hui Tung officials maintain that the Tangku Truce allows the operation of through air traffic as well as rail communication, and they have decided to continue their service in spite of the action of the Central Government, unless the Hopei-Chahar Council, with which they are registered, objects. The chances are very slim that the Hopei authorities will dare to interfere with the operation of the line.

15. Military Training for Students.

Some 4,000 students from the middle schools and colleges started a course of military training on June 7th at Hsi Yuan, Sung's cantonment west of Peiping, and a similar group began training at Paotingfu, the provincial capital, on the same day. The course runs for forty-five days and includes instruction in the elementary duties of the soldier.

This action is highly significant. In the past, objections by the Japanese made it impossible to carry out such training, but this year no objections have been raised and a valuable precedent has been set. If the Chinese will follow a reasonable policy in this training and make it continuous and progressive, they will take a long step forward in developing their national defense. The junior officer in the Chinese army until very recently has not been distinguished for his education or general make-up; if a source of officer material can be established through this kind of instruction, and college-trained men attracted into the service, it will be worth more to China than all the guns and planes and munitions that can be purchased abroad over a long period.

16. No More Demonstrations by Students in Peiping.

The Hopei-Chahar Council has prohibited street demonstrations and lectures by students, as being in many cases detrimental to the maintenance of peace and order. It remains to be seen if this very sensible order will be enforced and the irresponsible infants of the local colleges restrained in their provocative activities. This order and the training camp program (see above) are at least indications that the Hopei authorities are resolved to run the government without the interference of the half-baked political experts of the middle schools and colleges.

17. Another British Railway Loan.

The Ministry of Railways has got a loan of 800,000 pounds for the rehabilitation of the Nanking-Shanghai Railway from the British-Chinese Corporation, for whom the agents in China are the Hongkong-Shanghai Bank and Jardine, Matheson &

Company. The money is to be used to double-track the line between Shanghai and Soochow, relay the entire line, and purchase locomotives and signal equipment.

Joseph W. Stilwell

Joseph W. Stilwell
Colonel, Infantry
Military Attache

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COMMENTS ON CURRENT EVENTS

June 19 - July 2, 1937

RECEIVED G/2 W. D. JUL 27 1937

1. Sino-Japanese Relations
2. National Salvation Trial
3. Kuling Conferences
4. Students Enrolled for Summer Service
5. Military Training for Officials and Students
6. The Chinese Budget
7. Reserve Bank Law
8. Peiping to Elect Delegates to National People's Assembly
9. Great Britain to Retain Extrality in China
10. Attempt on the Life of Pu Yi

1. Sino-Japanese Relations.

(1) Chinese Foreign Minister's Statements on Sino-Japanese Relations.

Dr. Wang Chung-hui, the Chinese Foreign Minister, recently gave a lengthy interview to representatives of the Japanese press in Nanking. In this interview he submitted to the "question and answer" method of which the Japanese seem very fond. Dr. Wang's remarks concerning Sino-Japanese relations were notable for their freedom from any dogmatic assertion, making it obvious that he was anxious to say nothing which might prejudice such negotiations as may result from Mr. Kawagoe's impending resumption of duty in Nanking.

Dr. Wang discounted the suggestion that there has been any "stiffening" or "softening" of China's attitude toward Japan, and was content to rely on the enunciation of foreign policy determined by the Third Plenary Session of the Central Executive Committee of the Kuomintang held last February, and to assert China's desire to "live and let live" in her relations with other nations. He wisely refrained from singling out any special condition as pivotal to a renewal of Sino-Japanese conversations, although he did not fail to make it clear that the autonomous regime in Hopei, with its linked problem of smuggling in the North, must of necessity loom large in China's review of her relations with Japan. He also hinted in broad terms that in the effort to detect anti-Japanese sentiments among the Chinese people, it was proper to examine responsibility on both sides.

The North China Daily News, published in Shanghai by H. G. W. Woodhead, often condemned by the Chinese as a reactionary and die-hard, editorially credits Dr. Wang with having made a useful contribution to the development of more friendly Sino-Japanese relations by reason of the restrained but clearly stated pronouncements set forth by this interview.

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(2) The Return of Mr. Kawagoe.

Mr. Shigeru Kawagoe, the Japanese Ambassador to China, who has been in Tokyo conferring with government leaders on the Japanese policy toward China, arrived in Shanghai on June 29th. Domei News Agency states that prior to his departure Mr. Kawagoe told newspaper men that he was ready to resume negotiations for the readjustment of Sino-Japanese relations should China desire it, but hinted that he did not think the pending questions could be solved in a short time.

If Mr. Kawagoe was correctly quoted, he stated that Japan now recognized China in a new light, and that in turn China should grasp the true aspect of Japan. True understanding of Japan, Mr. Kawagoe went on to state, consisted of acknowledging Japan's right of existence and development, and especially full recognition of the inevitable relations between Manchukuo and North China.

Regarding Sino-Japanese economic co-operation in North China, Mr. Kawagoe is reported to have said that he would continue the practice of negotiating with local Chinese administrations on local issues, and refer to Nanking only those which must be dealt with through the Central Government. He emphasized the impossibility of cancelling the Tangku Truce and the Ho-Umezu Agreement, and stated that China had no reason to object to Japan's maintaining garrisons in North China, which were kept there in accordance with the terms of the Boxer Protocol.

Mr. Kawagoe declared that he expected to enforce stricter control over the illicit manufacture of and traffic in opium and other narcotics among Japanese nationals in China.

The Chinese reaction to Mr. Kawagoe's statements was one of extreme disappointment, Although earlier reports from Tokyo through Central News Agency stated that Mr. Hirota's "Three Principles" would continue to be the keynote in the Japanese attitude toward the adjustment of Sino-Japanese relations, hopes had been entertained that Mr. Kawagoe might return with instructions to take a conciliatory stand on some of the issues long outstanding between the two countries. The general impression here seems to be, however, that Japan is desirous of maintaining the present tranquility in her relations with China and will not press too hard for a realization of the Hirota three principles. As often noted before, the principles are (1) Economic Co-operation, (2) Autonomy of North China, (3) Japanese-Chinese United Action to Suppress Communism.

At this time, when practically every person of importance in the Central Government is at the Chinese summer capital at Kuling, it is not anticipated that Mr. Kawagoe's return will signal any marked charge in the status of Sino-Japanese relations, for the next two months at least.

(3) Chinese reaction to British-Japanese Negotiations.

It is natural that the news of recent conservations between Great Britain and Japan with a view to effecting a better understanding between the two nations has been followed in China with the greatest interest and no little apprehension lest a Sino-Japanese agreement might contain terms detrimental to the interests of China, particularly as there have been reports in the press to the effect that Japan favors the recognition of British spheres of influence in China in return for recognition of the position of Manchuria and Japan's special interests in North China.

Mr. Eden, the British Foreign Secretary, is reported by Reuter to have stated in the House of Commons on June 25th that the British Government had no intention of effecting an understanding with Japan which might adversely affect the interests of China. This statement has gone far to quiet China's nervousness concerning the coming negotiations between Great Britain and Japan, which press reports state will soon reach the stage of considering concrete proposals.

Anyone who reads Mr. Henry L. Stimson's book, "The Far Eastern Crisis," and reflects on Great Britain's failure to support the stand of the United States on the question of the occupation of Manchuria by the Japanese Army in the fall of 1931, cannot but be somewhat sceptical concerning the sincerity of Great Britain's assurances that she will conclude no agreement with Japan which might adversely affect China.

It is the opinion of this office that Great Britain is entirely capable of negotiating an agreement with Japan, which although it might not on the surface sell out China, would nevertheless buck up Japan to a point where she would feel justified in taking a much stronger line in China than she has for some months past. Thus in the end China would come out the loser, as she almost invariably has in the past in any treaty negotiations affecting the Far East.

(4) Japan's Five Year Plan.

Closely following the announcement of the reorganization of the Manchukuo Government (see No. 9562, par. 6), a report comes from Tokyo that a virtual merger of the Japanese and Manchukuo economic structures has been decided upon by the Tokyo Cabinet. Close collaboration will be maintained by the two governments in practically every phase of economic activity including industry, trade, finance, and tariffs. Close co-operation will be adhered to in the formulation of plans for the production of gold, coal, iron, and other minerals. Joint plans are to be made for making the two countries self-sufficient in raw cotton, wool, lumber, and foodstuffs. The program also provides for strict regulation of labor, including the utilization of surplus agricultural workers. There will also be regulation of supply and demand for commodities, reforms in the compilation of budgets and readjustment of the taxation system, control of financial organs, control of investments, curtailment of consumption and balancing of international payments. Importation of luxury goods is to be rigidly restricted. In order to make up for Japan's heavy exports of gold to the United States, the country is to embark on a program of extensive gold mining in Manchukuo, East Hopei, and Inner Mongolia.

This plan, to extend over a period of five years, was originally announced as a Manchukuo scheme involving the expenditure of Yen 2,350,000,000, to be supplied by the following organizations: South Manchuria Railway Company, Yen 900,000,000; Manchukuo Government, Yen 600,000,000; Manchurian Industrial Bank, Yen 100,000,000; Japan and Manchukuo private industrialists, Yen 650,000,000; other sources Yen 100,000,000. It was later announced that the scheme had been expanded to include both Japan and Manchukuo, and that the carrying out of this program would necessitate the raising of a grand total of more than Yen 9,350,000,000, of which Japan proper and Korea would require Yen 6,900,000,000.

The same article states that Japan's investments in Manchukuo since the Manchurian incident have now reached a total of about 800,000,000 Yen, in addition to about 1,000,000,000 Yen which has been paid out in military activities.

It seems very probable that this program will undoubtedly result in increased pressure on North China to submit to Japan's plans for the economic development of that area. As far as Manchuria is concerned, if the plan is carried out, it will result in a complete regimentation of the population.

Concerning the future status of Manchukuo, the announcement of the five-year plan seems more than a straw in the wind to indicate annexation in the near future. Certainly it would appear easier to carry out such an ambitious program in a subject country than in one where even a fiction of self-government was maintained.

The principal object of the plan is of course to strengthen Japan's military and naval power. A recent Reuter despatch from Tokyo states that the expenditure for national defense between 1938 and 1943 is expected to total Yen 11,000,000,000, of which at least 5,000,000,000 will be spent on the munitions industry. To meet this expenditure, the report states, Japan's industrial capacity must be tripled and emphasis shifted from light to heavy industry.

It seems almost impossible that any country, particularly one in the precarious financial situation in which Japan now finds herself, can stand the strain of such an industrial and economic program. Particularly evident is the fact that Japanese foreign exchange will be further unbalanced by the huge amounts which must be paid out in cash for high priced machinery and materials.

(5) Japan's Land Interests in Tientsin and Vicinity.

The recent incident concerning the burning of some buildings on a tract of Japanese-owned land near Tientsin known as "The Heavenly Farm" (see No. 9559, par. 1), appears to have passed over. On just what terms, if any, the affair was settled is not known, but the Japanese seem to have made it very clear that they will not permit the Chinese authorities to carry out their threat of death punishment to anyone selling land to foreigners in general and Japanese in particular.

The incident has, however, served to call attention to the fact that the Japanese, during the past three years, have acquired very considerable tracts of land in and near Tientsin. Even the approximate extent of these acquisitions is not known, and it is probable that the authorities of the Tientsin Hsien (township) themselves have no means of ascertaining just how much land has passed into Japanese hands, as the purchases have either been carried out through Chinese agents or recorded in names which do not show Japanese ownership.

Not only has land on the outskirts of Tientsin been acquired in this manner, but large tracts inside the city limits, particularly in the so-called Special Areas, are also known to have been bought up.

It was recently reported to one of the staff of this office that an American lawyer and newspaper man in Tientsin has been very active of late in assisting the Japanese in land purchases.

The eagerness of the Japanese to acquire land in Tientsin suggests a feeling on their part that their holdings will before long be included in an area completely dominated by their own nationals. The same thing happened in Mukden just prior to the "incident" in 1931. .The parallel between Mukden and Tientsin is obvious.

(6) Japanese Activity in Shansi.

Mr. S. Sogo, President of the Hsin Chung Company (see Report No. 9572 in this pouch) recently visited Taiyuan. On his return he stated that the trip had been made for the purpose of inquiring after the health of Yen Hsi-shan, whom he had not, however, been able to see. It seems unlikely that Mr. Sogo would make so long a trip even for so worthy a purpose, hence it is assumed that he went to Shansi to investigate prespects for Japanese economic activity in that province.

On his return, Mr. Sogo in a press interview expressed regret over the suspicion with which the Chinese people regard the Japanese program of economic co-operation in China.

Rumors have been heard of late that many Japanese spies are now active in Shansi.

(7) The Huitung Company.

The Huitung Company continues its service between China and Japan in spite of the protests of the Chinese Foreign Office. A recent report appearing in the local press that the company intended to suspend its service to Kalgan, Changpei, and Jehol because of lack of patronage has been denied by the company. Inquiry at the local office of the company reveals that tickets are still being sold to the places just named. The company has recently inaugurated a special service to Peitaiho, the famous North China summer resort near Chinwangtao, which is included in the demilitarized zone.

The Military Attache recently flew to Changpei, north of Kalgan, and returned on a regular flight of a Huitung plane. No objection was made to this trip although very few foreigners, other than Japanese, have been allowed to visit Changpei for some time.

(8) Swatow Incident.

While no formal announcement has been made of the settling of the Swatow incident (see No. 9562, par. 9), very little has appeared concerning it in the press for some days and the Japanese warships have left the port.

(9) Tokyo Press Reports British Loan to China.

Central News reports from Tokyo that the local press gives prominence to a story that China has concluded a loan of £10,000,000 with Great Britain, the money to be used for reconstruction purposes. According to the Tokyo papers, Great Britain is anxious to secure the co-operation of Japan in connection with the loan, principally to receive assurances that Japan will respect the integrity of the Chinese Customs, which will be earmarked as security for the loan.

There has been no confirmation from Great Britain concerning any such loan.

(10) Dope and Smuggling.

A considerable number of drug peddling establishments, both in Tientsin and Peiping, have recently been raided by the Japanese authorities. The action is believed to be nothing but eye wash to counteract some of the unfavorable publicity which Japan recently received at Geneva in connection with her promotion of the narcotic industry in North China. A well informed Japanese told one of this office staff a few days ago that the raids meant little as the only punishments handed out were fines, after paying which the offenders continued in the same way as before. This same Japanese stated that it was not reasonable to expect Japan to stamp out the drug traffic because to do so would deprive many Japanese and Koreans of a means of livelihood, a tacit admission of the magnitude of the drug trade.

Mr. Kawagoe's recent statement that he intended to promote measures to control Japanese participation in drug peddling is also believed to have been intended to counteract recent unfavorable reports concerning Japan's activities in this line.

Smuggling continues about the same. Japan has made it very clear that she does not intend to abolish the East Hopei autonomous regime for the present, which means that smuggling will probably continue unless the Chinese make decided concessions in the way of reduction of customs duties on Japanese goods. And as this office has repeatedly pointed out before, the Chinese failure to take severe measures to control smuggling is a very definite indication that she has no real courage to resist Japan, except in talk.

2. National Salvation Trial.

The trial of the seven leaders of the National Salvation Association arrested in Shanghai some months ago, on charges of plotting the overthrow of the Chinese Government, was resumed in the Kiangsu High Court in Soochow on June 25th. The trial has not yet been concluded.

3. Kuling Conferences.

Kuling, Kiangsi, the unofficial summer capital of China, is humming with activity. At least 14,000 persons are scheduled to receive "summer training" in lines pertaining to their various activities, beginning July 4th. The trainees are to be divided into three groups, each to receive twenty days of instruction.

The chancellors, as well as a number of prominent professors, of various government and private universities in Peiping have received invitations from Chiang Kai-shek and Wang Ching-wei, Chairman of the Central Political Council, to go to Kuling and participate in discussions with the high officials of the government on national affairs. Several Peiping educators have already left to attend these conferences.

Army officers, as well as educators from all over China, have also been summoned to Kuling, and a number from the 29th Army, commanded by Sung Che-yuan, Chairman of the Hopei-Chahar Political Council, have already left Peiping on their way to the summer capital.

Although the invitations to Kuling have been issued in the names of Chiang Kai-shek and Wang Ching-wei, the latter has not yet been able to proceed to the summer capital on account of a recent heart attack. He is reported much improved, but inasmuch as he has also been suffering for some time from diabetes, considerable anxiety is felt about his physical condition.

The inclusion of both civil and military officials from North China among those summoned to Kuling serves to remind Japan that Nanking still considers Hopei and Chahar as much a part of China as any of the other provinces.

4. Students Enrolled for Service in Rural Districts.

Chiang Kai-shek recently issued an appeal to students throughout the country to enrol for summer work in the promotion of the New Life Movement in rural districts. According to reports, about one thousand students have already enrolled for this work, which as far as possible will be carried on in their home villages. This plan of Chiang's to keep students out of trouble during the summer months resembles the device often used by teachers to control the worst boy in the room by appointing him a monitor to take care of the erasers.

5. Military Training for Officials and Students.

Most government and provincial officials throughout China, except in Hopei and Chahar, now undergo military training every day, generally early in the morning. This applies principally to the lower ranks, but many high officials are making at least a show of taking the training.

Summer military training of students is being carried out on a large scale this year. Last year there was no training of Peiping students, supposedly because of objection on the part of the Japanese, but this summer 2800 are receiving training at Hsiyuan, the large barracks west of Peiping, and as far as is known the Japanese have made no protest.

6. The Chinese Budget.

The ordinary budgetary estimates for the 26th fiscal year, beginning July 1, 1937, balanced at $1,000,649,496 Mex, was passed by the Legislative Yuan on June 25th. In approving the estimates for the forthcoming year, the Legislative Yuan has decided to recommend a reduction in the expenditure for finance administration, which totals more than $69,000,000, and is second only to the proposed military expenditures. An item for $70,000,000 for reconstruction purposes has been included in the budget estimates.

7. The Reserve Bank Law.

The Legislative Yuan has passed the Central Reserve Bank Bill. This bill, which will transfer the existing Central Bank of China into the Central Reserve Bank, comprises sixty-one articles in twelve chapters. The text of the bill has not yet been released.

8. Peiping to Elect Delegates to National People's Assembly.

General Chin Te-chun, the Mayor of Peiping, states that this city will elect six delegates to the National People's Assembly, which is scheduled to meet in Nanking next November to adopt a constitution and end the "period of political tutelage" of the Kuomintang. This meeting was to have been held last fall, but was called off. At that time there was some doubt expressed as to whether Japan would permit delegates to be sent from North China.

9. Great Britain to Retain Extrality in China.

According to Reuter, Lord Cranborne, Under-Secretary for Foreign Affairs, recently announced in the House of Commons that no negotiations were contemplated for the relinquishment of Great Britain's extraterritorial rights in China.

10. Attempt on the Life of Pu Yi.

Reuter reports that a Chinese student from Shanghai attempted to assassinate Pu Yi on June 13th.

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OSD letter, May 3, 1972
By MBG NARS, Date 4/1/74

COMMENTS ON CURRENT EVENTS

July 3 - 16, 1937

Sino—Japanese Relations

RECEIVED G/2 W. D. AUG 10 1937

Since the startling developments in North China following the recent clash of Japanese forces of the North China Garrison and Chinese troops stationed in the city of Wanping (Lukouchiao), eight miles south-west of Peiping, on July 8th, intelligent comment on Sino-Japanese relations has become a difficult matter.

It seems perfectly evident that Japan has not rushed a division of troops inside the Wall unless she means to get something, and until it is known just how much she is going to get at this time, the status of relations between Japan and China must of necessity remain very much in confusion. Many issues which have been commented on at length in previous reports, such as smuggling, the drug traffic, economic co-operation in North China, the relations of the North China and the Central Governments, and many other matters will probably assume a very different status as soon as Japan's latest move in China has been more or less stabilized.

The thought uppermost in the minds of observers of the situation in the Orient just now is, "Will China fight?" Chiang Kai-shek has repeatedly committed himself to the declaration that China will stand no further aggression from Japan. The aggression has come; what is Chiang going to do? No indications of any definite plan to resist by force of arms the Japanese moves in North China have as yet been reliably reported. No Central Government troops have moved up the Tientsin-Pukow line through Hsuchow, Kiangsu; nor have any moved north from Hankow. There are vague reports of movements along the Lunghai Railway and talk of Central Government forces and airplanes being sent toward Paoting in Hopei. It will take much more than this to stop the Japanese war machine now in action around Tientsin and Peiping. "Distant water cannot put out a near fire."

If Chiang Kai-shek means to fight in this crisis, his troops should be moving right now. He can, of course, confine his operations, if any, to strengthening the defense of the Yellow River line, but this can scarcely be taken as resistance to Japan's latest act of aggression.

This office has consistently maintained and still maintains that Chiang Kai-shek will not fight Japan, certainly not in North China. After all, North China brings Nanking little money, and the money question in the end is a

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fair measure with which to predict the amount of resistance which any Chinese government will put up to prevent loss of territory.

It is of course possible that failure to fight in the present crisis may cost Chiang Kai-shek his position. Certain well informed observers of the situation feel that if he does not fight his enemies may be able to stir up enough resentment against him to force him out, but Chiang has been in many tight places before and this office predicts he will weather the present storm, weakened perhaps, but still in the saddle. He may be able to satisfy the cry for resistance to Japan which is sure to be raised by moving reinforcements to the line of the Lunghai Railway, a move which Japan cannot very well check unless she sends many more troops to China. This would give Chiang a chance to say, "Certainly I am going to resist, and resistance at this juncture consists in holding the line of the Yellow River." And if the worst comes to the worst, it is not inconceivable that Chiang might foment trouble in some other part of China to divert attention from the alarming state of affairs in the North.

Meanwhile it appears that Japan's immediate objectives are the occupation of Tientsin and the entire Peiping-Shanhaikwan Railway, and the complete domination of Peiping. The presence of the foreign legations may save the latter city from being actually taken over by the Japanese, but it seems a foregone conclusion that a regime completely divorced from even a shadow of control by Nanking will be set up. And certainly the 29th Army will be removed from the Tientsin-Peiping area. Japan may even take more than this, particularly if reports that a division is to be sent to Tsingtao prove correct. There is always the possibility, of course, that she may be slowed down by pressure from Great Britain and the United States, but past experience would indicate the contrary.

At the present time, the probabilities are strong that another step in Japan's continental program is about to be completed.

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COMMENTS ON CURRENT EVENTS

July 17—August 8, 1937

RECEIVED G/2 W. D. OCT 5 1937

1. Raid on Soviet Consulate in Tientsin
2. Exodus of Japanese from China
3. Exodus of Chinese
4. Present Status of Hopei-Chahar Political Council
5. Newspapers Shut Down
6. Supply of Arms to China by the U.S.S.R.

1. Raid on Soviet Consulate in Tientsin.

On August 1, 1937, the Soviet Consulate in Tientsin was raided by White Russians, assisted, according to press reports, by armed Japanese in plain clothes. The Consulate was located in the Ex-Russian Concession, now known as the Third Special Area. This district has been under the control of the Chinese for some years, but on August first all Chinese police had fled, leaving the Consulate unprotected. Many of the documents of the Consulate were carried off, supposedly into the Japanese Concession.

The Soviets have lodged a strong protest with the Japanese Government through their charge d'affaires in Tokyo, on the grounds that the Japanese were in control in Tientsin at the time the raid occurred. The Soviets also claim that the raid was carried out with the full knowledge of a detachment of Japanese troops stationed near the Consulate, and that these troops made no move to prevent the carrying off of the property and documents of the Consulate. Demands have been made by the Soviets for the punishment of the White Russians concerned; for the return of the property taken away; and for assurances of protection in future.

The Japanese have rejected the protest, disclaiming any connection with the raid. The Soviets in this case would appear to have a just grievance, but no place in which to seek redress.

2. Exodus of Japanese from China.

Probably influenced by anxiety lest another incident should occur similar to the one in Tungchow on the 29th of July, when over two hundred Japanese civilians were massacred, the Japanese Government is making efforts to evacuate all its nationals from isolated points in China, particularly from the Yangtze Valley. Shasi and Chungking have been evacuated; and all Japanese armed forces, as well as civilians, left Hankow on August 8th. The withdrawal from Hankow was obviously inspired by military expediency, as the Japanese Concession,

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with its small garrison, was completely surrounded by thousands of Chinese troops, and the situation had been very strained for some days. The Chinese have completely taken over the Concession, both for police and administration.

All Japanese from Tsinan and other points in the interior of Shantung have been evacuated to Tsingtao, and large numbers have already left that port for home. Many hundreds of Japanese are also reported leaving Shanghai and Canton.

3. Exodus of Chinese.

In the present critical situation, the vast majority of the Chinese of course have no place to which they can flee and no means to get there if they had, but many of those who are able to leave their present places of abode seem imbued with a mad desire to move into areas which they imagine will be safer than the ones in which they now reside. The trains which have left Peiping for Tientsin since the present crisis arose have been crowded with Chinese leaving for Tientsin, probably thinking that this city, with its foreign concessions, would be safer than the old capital. In Tientsin, thousands have moved from the Native City into the Concessions; while in Shanghai the number coming into the International Settlement from the Chapei area has reached huge proportions. Many Chinese have fled from Nanking to Shanghai and, strange to say, many others have moved in just the reverse direction.

The American Consul in Tsingtao reports that thousands have left that port for the south, while similar numbers have poured into the city from points in the interior. The same source reports that conditions in Tsingtao, as far as the Chinese are concerned, are greatly clouded by political intrigue, and that many Chinese are greatly dissatisfied with the Mayor, Admiral Shen Hung-lieh, whose attitude is described as one of bravado.

4. Present Status of the Hopei-Chahar Political Council.

Sung Che-yuan, Chairman of the Hopei-Chahar Political Council, and Pacification Commissioner of the same two provinces; Ch'in Te-chun, Mayor of Peiping; and Feng Chih-an, Chairman of Hopei and Commander of the 37th Division, 29th Army, fled from Peiping to Paoting during the night of July 28-29th. General Chang Tzu-chung, Mayor of Tientsin and Commander of the 38th Division, 29th Army, took over as Acting Head of the Hopei-Chahar Political Council, Acting Pacification Commissioner, and Acting Mayor of Peiping the next day.

On the 4th of August, eight new members were appointed to the Council to take the places of Generals Sung, Ch'in, and Feng, and five others who had left Peiping. Most prominent among the new members were General Chang Yun-yung, head of the Hopei Peace Preservation Corps and Managing Director of the Peiping-Suiyuan Railway; General Chang Pi, a former adviser to the Council and, since a few days ago, head of the Peking Tramway Company; and General Pan Yu-kwei, just recently appointed Chief of Police of Peiping. All three of these gentlemen are reputed to have a strong Japanese bias.

Chang Tzu-chung's tenure of his important offices was short, for he resigned all three of his "acting" positions on August 7th, giving ill health as his reason. The real reason is said to be that he could not stand Japanese pressure to resist Nanking.

Since the resignation of General Chang Tzu-chung, a standing committee of five members of the Council has been appointed to look after its most important affairs. Prominent on this committee is General Chang Pi, who is said to maintain close relations with Colonel Matsui, special representative of the Japanese Army in Peiping.

As Peiping now has no Mayor or acting Mayor, municipal affairs, according to the press, will be handled for the time being by the Hopei-Chahar Political Council; while General Fu Chan-kwei, Chief of Staff, is reported to have been placed in temporary charge of the affairs of the Hopei-Chahar Pacification Commissioner's Headquarters. General Fu has been mentioned as a likely successor to Chang Tzu-chung as Chairman of the Hopei-Chahar Political Council.

5. Newspapers Shut Down.

Reuter reports that since the Japanese gained complete control of the Tientsin-Peiping area, Chinese journalistic enterprises in North China have been drastically curtailed. The report states that four large and nineteen small newspapers have been forced to suspend publication, while twenty-two news agencies, including Central News, official organ of the Chinese Government, have closed down. All members of the Central News Agency staff in Peiping were recently arrested by the Japanese on charges of being Communists, but all but the head of the Agency have now been released.

There is considerable speculation in Peiping as to whether the *Peiping Chronicle*, long reputed to be a Nanking-subsidized journal, will be allowed to continue publication. The *Chronicle* is now compelled to rely on Domei for most of its news about China, except Peiping and Tientsin items.

The *Ta Kung Pao* (*L'Impartial*), long known as one of the finest vernacular papers in China, both for news and editorials, has suspended its Tientsin edition, but the Shanghai edition will be continued. The *Ta Kung Pao* will be greatly missed in this office.

6. Supply of Arms to China by the U.S.S.R.

According to a Havas News Agency despatch from Moscow, the reports recently appearing in some foreign quarters that the Soviet Far Eastern Commander, General Blucher, had been entrusted by Moscow with the mission of concluding an agreement on arms deliveries to the Nanking Government have been emphatically denied in the Soviet capital by both Soviet and Chinese authorities.

It is to be expected that observers of the Far Eastern situation will be watching closely for any signs that Soviet Russia might intend to come to China's aid in the present crisis, but thus far reliable indications to this effect have been entirely lacking.

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WAR DEPARTMENT

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COMMENTS ON CURRENT EVENTS

August 9 - September 1, 1937

RECEIVED G/2 W. D. OCT 13 1937

1. Evacuation of Japanese Nationals
2. Nanking Officials Moving
3. Canton Bombed
4. Blockade
5. North China Autonomous State
6. End of Hopei-Chahar Political Council
7. The War Now has a Name
8. Non-Aggression Pact with Russia
9. Where Are the Reds?
10. Madame Chiang Participating in Councils of War

1. Evacuation of Japanese Nationals.

The evacuation of Japanese nationals from China is now completed. This wholesale exodus is a very definite indication of the seriousness with which the Japanese view the war in China.

2. Nanking Officials Moving.

Part of the ministries of communications and railways have already moved to Hankow. Repeated bombing of Nanking will probably force a further emigration inland. Hankow, however, has already been bombed, and safety will have to be sought farther west.

3. Canton Bombed.

Canton had its first air raid on August 31st. Little damage was done, but the moral effect of the extension of activity to the far south will prove to the Chinese that they will all have to take part in some way in this war.

4. Blockade.

The Japanese Admiral Hasegawa, on August 25th, declared a blockade of the Chinese coast from the mouth of the Yangtze to below Swatow. The blockade was announced as applying only to Chinese owned ships, but already ships of neutrals have been boarded for inspection.

5. North China Autonomous State.

A clue to Japanese intentions appeared in the organization of certain bogus societies in Peiping, one of which calls for the establishment of an autonomous state to include Hopei, Chahar, Suiyuan, Shantung, Honan, Shansi, Shensi, Kansu, and Chinghai. This would, - as the Japanese have stated they intended, - settle the North China question once for all.

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China would be reduced to impotence, an enormous market and source of raw materials acquired, and a barrier zone established against Russia.

6. End of Hopei-Chahar Political Council.

The Hopei-Chahar Political Council died a natural death on August 20th, and its archives were taken over on August 21st by the so-called Peace Preservation Association, headed by General Kiang Chao-tsung, who is now also the Mayor of Peiping. The Japanese military are of course "assisting" the Association in the administration of the city. In plain words, there is a Japanese military government in this area, with this Chinese puppet set-up furnishing the front.

7. The War Now has a Name.

The present hostilities, which were first termed the "Lukouchiao Incident" and later became the "North China Incident," have now been dignified by the Japanese Government as the "Sino-Japanese Incident."

8. Non-Aggression Pact with Russia.

This pact, signed on August 21st, for a five-year period, has on its face nothing of especial significance. China and Russia each agrees that if one of them is attacked by a third party, the other will not assist the aggressor. It is, however, to the Japanese, a plain indication that China is lined up against any fascist bloc, and will side with Russia in any future Russo-Japanese conflict.

9. Where Are the Reds?

Burning to fight the Japanese, the Chinese Red Army has not yet appeared on the battlefield, and the only indication of any move to get there has been one unconfirmed report that one Red division had reached Taolin in Suiyuan. Otherwise, their only participation in the war to date has been the visit to Nanking of Chu Teh and Mao Tze-tung. What they accomplished is not known.

10. Madame Chiang Participating in Councils of War.

It is announced that Madame Chiang Kai-shek is now attending conferences of the high command in Nanking, and is handling all the executive work relating to aeronautical problems. A partial explanation of the Palace Hotel, Thibet Road, and President Hoover incidents is thus available.

Joseph W. Stilwell,

Joseph W. Stilwell
Colonel, Infantry
Military Attache

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COMMENTS ON CURRENT EVENTS

September 2 - 17, 1937

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1. Japanese Language for Peiping Police
2. Extension of the Blockade
3. G.H.Q. at Peiping
4. Kidnapping Incident
5. The "China Incident"
6. Russian Help for China
7. Autonomy in Kalgan
8. Release of Noulens
9. Commanding Generals Announced
10. Central Bank for North China
11. Cholera at Shanghai
12. General Kita to Take Charge of Political Affairs
13. Future of Foreign Trade in China
14. The Reds Organized
15. Kwangsi Units Arrive

DECLASSIFIED
E.O. 11652, Sec. 3(E) and 5(D) or (E)
OSD letter, May 3, 1972
By [illegible] NARS Date 6-20-74

1. Japanese Language for Peiping Police.

Classes in the Japanese language were started for the Peiping police on September 4th.

2. Extension of the Blockade.

Admiral Hasegawa on September 5th announced the extension of the blockade to include the entire China coast from Shanhaikwan to Pakhoi, except Tsingtao and "waters belonging to the leased territories of third powers." This presumably applies to Hongkong. It is significant that Tsingtao was omitted.

3. G.H.Q. at Peiping.

Reports were current on September 5th that the G.H.Q. for the Japanese forces in China would soon be established in Peiping, with General Terauchi in command. Generals Kita, Isogai, and Nishio were expected to serve here with him, and two armies were to be formed, one to operate on the Ping-Han line and one on the Tsin-Pu line.

4. Kidnapping Incident.

On August 30th, ten Roman Catholic priests and some thirty Chinese were kidnapped by a band of 1,000 irregulars at the Marist Seminary, twelve miles west of Peiping. They took to the hills, pursued by a force of Japanese, and sent in the usual preposterous demands for ransom. Four of the priests were released by the bandits on September 5th, and the ransom demand for the remaining six foreigners and thirty Chinese captives was reduced from a million and a half to $50,000.

Up to date, efforts to release the captives have been fruitless.

5. The "China Incident."

The war in China is now officially known by the Japanese as the "China Incident." This is the fourth label attached to it, the others being the "Lukouch'iao Incident," the "North China Incident," and "The Sino-Japanese Incident." The matter of getting a suitable name for the affair seems to bother the Japanese considerably.

6. Russian Help for China.

The Japanese state (September 5th) that they know positively that Russia is sending planes and aviators to assist the Chinese, and that some of them have already arrived. This gives the Japanese an added grievance and another proof of Chinese insincerity.

7. Autonomy in Kalgan.

A group of Chinese citizens proclaimed an autonomous government in Kalgan on September 4th, to be known as the "South Chahar Autonomous Government." This is merely anticipating coming events in a small way.

8. Release of Noulens.

Paul Noulens and wife, two Russians serving life sentences at Nanking for communist activities have, according to Chinese press reports, been pardoned. True or not, this is another straw that shows that the wind is blowing toward Russia.

9. Commanding Generals Announced.

Tokyo at last, on September 15th, let it be known that General Terauchi is in command of all Japanese forces in North China, and General Matsui is in command at Shanghai.

10. Central Bank for North China.

The Japanese are reported to be considering the organization of a central bank for North China, backed by the Bank of Korea. The new institution is to absorb both the Hopei Provincial Bank and the Chahar Commercial Bank, with its headquarters either in Peiping or Tientsin.

11. Cholera at Shanghai.

The cholera epidemic in Shanghai has got worse, with over 1,000 cases reported on September 16th.

12. General Kita to Take Charge of Political Affairs.

General Kita, former Military Attache to China, will very probably direct the political affairs of North China and the establishment of whatever government the Japanese have decided on. He is now (September 16th) in Peiping conferring with the Peace Preservation Association.

13. Future of Foreign Trade in China.

Mr. Kawagoe, on September 13th, stated that foreign trade and commerce in China need not be affected by the Japanese objective, which is the forcing of the Chinese to abandon communism and anti-Japanism. He said nothing about foreign interests, however, which may be something different.

14. The Reds Organized.

The Chinese Red Army has now become the 8th Route Army and is destined to operate on the north flank in Shansi and Suiyuan under Chu Teh and Peng Teh-huai. Another Red force, not yet given a designation, is to go to work in Suiyuan and Chahar under Mao Tze-tung. No reds have up to date (September 16th) appeared in action.

15. Kwangsi Units Arrive.

Three divisions of Kwangsi troops, probably the 170th, 173rd, and 175th, have arrived in the Shanghai area, and Li Chai-sum and Ch'en Ming-shu are reported in Nanking, co-operating with the Central Government.

Joseph W. Stilwell,

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Colonel, Infantry
Military Attache

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COMMENTS ON CURRENT EVENTS

September 18—30, 1937

RECEIVED G/2 W. D. NOV 9 1937

1. Peiping Peace Preservation Association to Lead Northern Government
2. Han Fu-ch'u and Yen Hsi-shan
3. Defeated Generals to be Impeached or Shot
4. Shooting of British Ambassador Settled
5. Germany as Friend of China
6. Soviet Assistance to China
7. Chiang Kai-shek on Resistance
8. Activities of Madame Chiang Kai-shek
9. East Hopei Government
10. Anglo-Japanese Relations
11. Effect of War on Chinese Foreign Trade
12. H. H. Kung on Way Home
13. New Head of Japanese Military Mission to Peiping
14. Japanese-Siamese Relations
15. Cholera
16. Manchukuo Troops in North China
17. Admiral Yarnell's Statement of Policy
18. Conditions in Peiping
19. Dissatisfaction with Italian Airplanes
20. Japanese Naval Attache on Bombing of Non-combatants
21. Chiang Kai-shek Elated over Return of the Communists to the Fold

1. Peiping Peace Preservation Association to Lead Northern Government.

Reports in well informed Chinese circles state that the present Peiping Peace Preservation Commission will become the highest political body in North China as soon as the Japanese have cleared Hopei, Chahar, and Suiyuan of Nanking troops. Two members of the Peiping body went to Tientsin on September 21st, accompanied by a Japanese adviser, for the stated purpose of calling on General Terauchi, commanding the Japanese forces in North China, and to exchange views with the leaders of the Tientsin Peace Preservation Commission on problems of current interest. According to Japanese press reports, a representative of the East Hopei Autonomous Government was present at the conferences.

Reuter states that the task of forming a "shadow government" in North China has been entrusted to Major General Kita, who was recently relieved as Military Attache to the Japanese Embassy in Nanking and transferred to Tientsin in charge of political work in North China. Progress in formation of the new government has been slow, according to Reuter.

From M/A, China Report No. 9596 September 30, 1937

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In Chinese circles speculations are already being made as to who will be the chief executive of the new government. Marshal Wu Pei-fu has been mentioned as a likely candidate, but it is understood that he will not accept the post. The Japanese will probably have a hard time finding a man of sufficient stature for the job. With Wu Pei-fu unavailable, about the only good prospect would appear to be Han Fu-ch'u, Chairman of Shantung, who is suspected of having sold out to Japan.

2. Han Fu-ch'u and Yen Hsi-shan.

If the reports to the effect that a new government will be set up in North China as soon as Hopei, Chahar, and Suiyuan are cleared of Chinese troops are correct, it would appear that Japan hopes to gain Shantung and Shansi without fighting. In this connection, most Chinese have felt that Han Fu-ch'u has been "in the bag" as far as Japan is concerned for some time, and many indications point this way, particularly the Japanese failure, to date, to occupy Tsingtao. Captain Dorn, of this office, now in Shantung, recently heard on what appeared to be good authority that Han would not only throw in his lot with Japan, but in the event of a Chinese defeat in Hopei would permit retreating troops to pass through his province if such movement were executed in good order, but would fight a retreating rabble.

The latest report about Han is that after the capture of Paotingfu, Lieutenant General Doihara flew to Tsinan to offer him peace terms. If this is true, Shantung must be in the bag, for otherwise it would be a very risky business for a Japanese airplane to fly into the midst of supposedly hostile territory.

In the face of these reports about his having sold out to the Japanese, Han came out on September 29th with an unequivocal asseveration of absolute loyalty to Nanking, and branding as fabrications of the enemy all rumors to the contrary. He denied that Doihara had flown to Tsinan to interview him. Long experience with Chinese leaders has shown that often when they come out with a flat statement such as the one made by Han, they may follow it with an act exactly contrary to their words. Whether this will prove the case with Han, the immediate future will probably show.

Not much is known about how Yen Hsi-shan stands with the Japanese. There have been vague rumors that he has already sent a representative to Peiping to sue for peace with the Japanese, but these reports cannot be confirmed. Reuter states that inasmuch as Central Government troops have recently arrived in Taiyuan, Yen is no longer a free agent and must resist the Japanese. The general impression is, however, that Yen, always a slippery customer, will welcome the first opportunity to go over to the enemy in order to spare his province as much as possible the horrors of a Japanese invasion and a Chinese defeat.

As to Suiyuan, most observers feel that Fu Tso-yi will fight the Japanese as long as he can, but if he loses the support of Yen Hsi-shan his situation will be a hopeless one.

3. Defeated Generals to be Impeached or Shot.

A Nanking report states that an impeachment has been lodged atainst Liu Ju-ming, former Governor of Chahar and Commanding General of the 143rd Division, 29th Army, for his defeat in the Kalgan area. Another report from Peiping states that Wan Fu-lin, commanding the 53rd Army, and Feng Chan-hai, commanding the 91st Division, have been shot by General Liu Chih, Pacification Commissioner of Honan and Anhui, for the failure of their troops to hold their positions against the Japanese in the recent fighting on the Peiping-Hankow Railway. The latter report has not been confirmed.

No gesture could appear more useless than to attempt punishment of these generals, if the reports are true. It would seem just as logical to attempt to impeach Chiang Kai-shek for having allowed them to command troops in areas of such vitally strategic importance. Wan Fu-lin has been known as a worthless military commander for years, while the troops under him, remnants of the forces of Chang Hsueh-liang, were a dispirited rabble. Feng Chan-hai is another former Northeast Army commander of whom nothing could be expected.

While Liu Ju-ming was supposed to be defending Kalgan, his family was reported living in the Tientsin Chinese city, a circumstance which might have been expected to affect his ability to fight the Japanese.

4. Shooting of British Ambassador Settled.

Sir Hugh Montgomery Knatchbull-Hugessen, the British Ambassador to China, was able to leave the Shanghai Country Hospital on September 25th. He plans to sail with his family for the Netherlands East Indies on October 4th for a trip to recuperate his health.

Japan's final reply to the British note protesting against the shooting of the Ambassador was handed to the British Embassy in Tokyo on September 21st. The note, as reported by Reuter, conveyed a formal expression of deep regret for the incident, and stated that the personnel of the two planes which did the machine gunning and bombing were acting under the sincere belief that the car conveying the Ambassador was a military omnibus or truck.

The note went on to say that the Japanese Government will take suitable steps whenever it has been established that a Japanese aviator has killed or wounded intentionally or through negligence nationals belonging to a third country.

Instructions, concludes the note, will be sent to the Japanese forces in China to exercise the greatest care for the safeguarding of non-combatants.

Although the note appears very vague on the subject of the British demand for the punishment of the aviators responsible for the shooting, it has been accepted as satisfactory by the British Government and the whole incident is now considered closed.

5. Germany as Friend of China.

The Geneva correspondent of the London Daily Herald, according to a Reuter despatch from the latter city, claims to have learned on exceedingly good authority that Germany is sending large quantities of munitions to China and is prepared to send still larger amounts. "In German eyes," the Geneva correspondent adds, "the idea of the Japanese-German Agreement was that Japan should oppose Russian penetration of China and, if necessary fight the Soviet; but not in the least that Japan should try to conquer and dominate China and liquidate all European interests in that country. German diplomacy is now working persuasively to convince General Chiang Kai-shek that Germany, in China's hour of trouble, is her firmest friend."

According to Havas, an article recently appeared in the Deutsche Allgemeine Zeiting by Lieutenant General Karl Held, of the German Army Reserve, in which he states that the stubborn resistance offered by the Chinese soldiers to Japan's attacks does not surprise those specialists who have followed the progress of the reorganization of the Chinese Army during the past few years, and who know the individual bravery of the Chinese soldier.

Transocean reports that Dr. Gunther von Wolff, leader of the German nationals in North China, who left Peiping in May on home leave, recently stated in Stuttgart at the Congress of German Foreign Organizations that all German nationals in China had the greatest sympathy for China in the present situation. Dr. von Wolff also said, according to the despatch, that he hoped the traditional friendship between Germany and China would continue for the mutual benefit of both nations.

6. Soviet Assistance to China.

Speculation as to the amount of aid, if any, which Russia will lend China in the present crisis continues to occupy the attention of observers of the situation. So far there have been few indications that Russian help will be much of a factor in the final decision. Russia has undoubtedly delivered some airplanes, the exact number of which is unknown, but whether pilots to fly these planes in combat have also been furnished is not known. Captain Roberts in Nanking states that he hears from reliable sources that deliveries of additional Russian planes will begin in two weeks and that other munitions are also to be supplied.

It is to be expected that since the conclusion of the recent Chinese-Soviet pact (see Report No. 9589, item 8) reports of further agreements between the two countries should be circulated. Domei has published the alleged full details of a Sino-Russian Mutual Assistance Treaty which this source claims will soon be consummated. One of the important clauses in the past, according to Domei, provides for the delivery of three hundred and sixty-three airplanes, one hundred anti-aircraft guns, two hundred pieces of artillery, and numerous other munitions of war. Reports concerning this alleged treaty have been branded as "fantastic and entirely groundless" by both China and Russia.

According to press reports, Mr. Bogomoloff, the Russian Ambassador to China, left Nanking on September 28th bound for Russia via Sinkiang. The departure of Mr. Bogomoloff has released a flood of rumors that he is going to Moscow on a mission of the utmost importance to Chinese-Soviet relations.

An interesting comment on the present quiet conditions now prevailing on the Russian-Manchurian frontier is reported by Transocean to have been made in Tokyo on the 24th of September by Mr. Arita, the Japanese Foreign Minister, According to the despatch, Mr. Arita gave it as his opinion that these conditions could not long continue.

7. Chiang Kai-shek on Resistance.

In the course of an interview given on September 24th to foreign correspondents in Nanking, Chiang Kai-shek is reported to have stated that Chinese resistance will continue so long as Japanese aggression continues. In commenting on America's attitude toward the China incident, he expressed the opinion that America's present stand did not represent the real sentiments of the American people, and that he was confident that the American nation would not forget its treaty oblications. "America's obligation is far greater," stated the Generalissimo, "since she had convened the Washington Conference and was mainly instrumental in the conclusion of the Nine-Power Treaty and the League Covenant." Chiang expressed surprise at the attitude of the Powers, stating that they had not only failed to live up to their obligations, but were definitely under the domination of Japan and were tearing up the treaties to which they were signatories.

As to China's ability to hold out against the Japanese, the Generalissimo said: "China is a nation possessing undefinable and inexhaustible power and resources. No matter how long this war lasts, China will be able to hold out. A blockade may seriously affect other countries, but will have no appreciable effect on Chinese resistance."

As to where China will obtain munitions of war in the event of a complete blockade of her ports, the Generalissimo made no statement.

8. Activities of Madame Chiang Kai-shek.

According to Domei, Madame Chiang Kai-shek arrived in Shanghai by motor-car on September 19th to negotiate with non-American firms for the purchase of aeroplanes to replace recent losses in the Chinese air force. Another report states that she was buying not only planes but arms, ammunition, and other munitions of war. Madame Chiang could not have remained in Shanghai very long, for on September 24th she interpreted for her husband in Nanking in an interview which he gave to foreign correspondents.

9. East Hopei Government.

Since the Tungchow "massacre" of July 29, 1937, when the military forces of the East Hopei Government turned on their Japanese masters and killed about one hundred and eighty Japanese and Korean civilians, the capital of the autonomous regime has been moved to Tongshan, where it is now functioning under the chairmanship of one Chih Tsung-mo, former Chief Secretary to Yin Ju-keng.

Yin Ju-keng is reported to have barely escaped with his life from the massacre, after which it is believed he was detained for some time by the Japanese, who were said to be holding him responsible for the unfortunate affair. It would have been no surprise if the Japanese had punished Yin very severely for having failed to prevent the murder of Japanese nationals. According to latest reports, however, Yin has been released by the Japanese and is now living in the East City of Peiping.

The East Hopei Bank, whose head offices are in Tongshan, has recently opened sub-offices in Peiping and Tientsin. Other sub-offices are reported in operation in Shanhaikuan, Tungchow, and Changli. Capital of the bank is said to be Mex. $5,000,000, of which one-fourth has been paid up. Bank notes to the value of Mex.$500,000 have been issued. The amount of these notes has been kept low, according to the manager of the bank, in order to inspire public confidence.

10. Anglo-Japanese Relations.

Reuter claims to have learned from well informed Chinese circles that in an interview between Mr. R. G. Howe, Counsellor of the British Embassy, and Mr. Kawagoe, the Japanese Ambassador, in Shanghai on September 12th, the following points were emphasized:

(1) That the integrity of the Foreign Settlement in Shanghai should be upheld by the contending parties in the present hostilities;
(2) That the Japanese should take no action that might tend to impair British commercial interests in South China;
(3) That British shipping along the China coast should not be affected by the Japanese naval blockade;
(4) That the Japanese should render assurances not to occupy any strategic islets in the vicinity of Hongkong.

It is understood that Mr. Kawagoe, whilst asserting the readiness of Japan to respect British interests as far as possible, gave no specific undertakings on the points raised.

Domei reports under date of September 16th that Japan has notified the British Government of her decision to postpone the proposed conference of Japanese and British shipping industrialists in view of the current situation.

11. Effect of War on China's Foreign Trade.

Figures released by the Chinese Customs authorities in Shanghai concerning the trade of the port for the first thirteen days in August show exports totalling Mex.$23,757,000, and imports of Mex.$28,162,000, a fifty per cent drop from the figures for the preceding month. Trade has been virtually suspended since August 14th.

A recent report from Shanghai states that a committee of Japanese has begun to examine cargo and levy duties on cargoes brought in by Japanese ships.

Whether the figures quoted above are correct or not, the effect of the present war on Chinese foreign trade has been to effect a practical paralysis. As a matter of fact, however, the ultimate effect upon the Chinese Government of this loss may not be quite as serious as would appear at first, as a large proportion of the Customs revenue is devoted to the service of foreign loans which can be repudiated, temporarily at least, if no funds are available with which to keep up payments.

12. H. H. Kung on Way Home.

Dr. H. H. Kung, Minister of Finance and Vice-President of the Executive Yuan of the Chinese National Government, sailed from Naples on September 24th to return to China, according to Havas. Dr. Kung is reported to have made his departure incognito, hence no officials were present to see his off.

13. New Head of Japanese Military Mission in Peiping.

Colonel Tairo Matsui, who has been chief of the Special Japanese Military Mission in Peiping, left for Kalgan on September 20th to assume his new post as head of the Japanese Military Mission in Chahar. Colonel Matsui has been succeeded by Colonel Nemoto, who has been on duty in Tokyo until recently. Colonel Nemoto has had previous experience in China, having been stationed in Peiping in 1933-34.

Colonel Matsui was generally liked during his tour of duty in Peiping. He spoke little English and less Chinese, but gave the impression of being a hard worker and a good soldier. It is believed that he was as acceptable to the Chinese as any Japanese officer could have been under the circumstances.

14. Japanese-Siamese Relations.

Transocean News Agency reports the official announcement in Tokyo on September 18th that a new commercial treaty is about to be concluded between Japan and Siam. The new treaty is to follow the lines of the previous one, but will provide better opportunities for even closer relations between the two countries.

According to Domei, elaborate ceremonies were held in Tokyo on September 26th marking the 50th anniversary of the opening of diplomatic relations between Japan and Siam.

Just what Japan hopes to gain by the cultivation of friendly relations with Siam is not clear.

15. Cholera.

Reuter stated on September 25th that a total of 1,853 cases of cholera has been reported in Shanghai since the outbreak of an epidemic of the disease a couple of weeks ago. While most of the cases have occurred in the refugee camps, where 300 deaths have been reported, there have been a considerable number of cases among foreigners, of whom ten are reported to have died. Cholera is also reported to have caused 150 deaths among the Japanese troops in the Shanghai area. That the epidemic is not dying out in Shanghai is indicated by the fact that 150 cases were brought in on the 24th of September, the largest number in one day since the outbreak of the disease.

Hongkong has also had a bad cholera epidemic, one of the foreign victims being Mr. Alfred Hicks, editor of the "Hongkong Telegraph."

Cases of the disease have been reported at Taku, but none in Tientsin and Peiping. The near approach of cold weather makes it unlikely that an epidemic can break out in this area.

16. Manchukuo Troops in North China.

Some Manchukuo troops have arrived in North China, but their present dispositions and numbers are not definitely known. The local spokesman of the Japanese Military Headquarters recently admitted that Manchukuo troops were being used to guard the railway line from Peiping to Kalgan, but would give no further information on the subject.

Reports, not confirmed, state that there are Manchukuo troops at Taisingchuang, not far from Peiyuan, the Chinese barracks about six miles north of the city. A few soldiers in Manchukuo uniform were observed outside one of the south gates of the city on September 30th.

According to reports which have reached this office from several sources, there have been mutinies of Manchukuo troops in Manchuria since the outbreak of the war in China, but details of these occurrences are not available.

If the Japanese are using Manchukuo troops to guard lines of communication, the move would appear to be a wise one, as it would both conserve Japanese army man power for more important operations and at the same time place the Manchukuo forces in a situation where it would be very difficult for them to revolt.

17. Admiral Yarnell's Statement of Policy.

On September 22, 1937, Admiral Harry E. Yarnell, Commanding the Asiatic Fleet, despatched the following radio to all elements of his command:

> "The policy of the Commander-in-Chief of the Asiatic Fleet during the present emergency is to employ U.S. naval forces under his command so as to offer all possible protection and assistance to our nationals in cases where needed. Naval vessels will be stationed in ports where American citizens are concentrated and will remain there until it is no longer possible or necessary to protect them or until they have been evacuated. This policy based on our duties and obligations will be continued as long as the present controversy between China and Japan exists and will continue in full force even after our nationals have been warned to leave China and after an opportunity to leave has been given. Most American citizens now in China are engaged in businesses or professions which are their only means of livelihood. These persons are unwilling to leave until their businesses have been destroyed or they are forced to leave due to actual physical danger. Until such time comes our naval forces can not be withdrawn without failure in our duty and without bringing great discredit on the United States Navy. In giving assistance and protection our naval forces may at times be exposed to dangers which will in most cases be slight but in any case these risks must be accepted."

18. Conditions in Peiping.

Conditions in Peiping remain generally good, except that all kinds of business have been greatly affected by the war. Restaurants and places of amusement have been particularly hard hit, as many Chinese seem unwilling to go out at night except when necessary. Many feel that it is unbecoming to indulge in entertaining and amusements in a time of national danger. Furthermore, for a Chinese to be seen spending freely at this time makes him liable to extortion by his own people as well as the Japanese.

The Peiping Chief of Police recently urged the owners of Chinese theatres and picture houses, which have been closed at night since the war broke out, to resume evening performances, but as yet none has carried out the suggestion. Two large foreign-style picture houses are in operation, but evening attendance is small.

Few reliable reports are heard of mistreatment of the Chinese population by Japanese troops. There have undoubtedly been cases of soldiers taking small articles from shops without paying or paying only a fraction of the asked price, but not many instances of this sort have been reliably reported. As far as can be observed on the streets the Chinese populace and the Japanese invaders seem to be getting along very well. Those who remember the days when Chang Tso-lin's troops were in occupation of Peking and constantly forced almost worthless "fengpiao" (Fengtien depreciated currency) on the local population have little to complain of in the behavior of the present Japanese garrison.

According to the latest report of the General Chamber of Commerce of Peiping there are still around 5,000 war refugees in the city, who are being cared for in shelters maintained by six different institutions. There is no doubt that relief work is well organized in Peiping at the present time, but with conditions as they are and so many out of work the coming winter will be a very hard one.

Conditions in the villages outside of Peiping are bad. The populace suffers not only from the depredations of bandits but from the demands of plain-clothes troops, mostly remnants of the 29th Army who are still putting up a show of resistance to the Japanese. Members of the faculty of Yenching University, located eight miles to the west of Peiping, report sporadic firing nightly in the villages round about.

It is expected that when the crops are harvested, Japanese troops in and around Peiping will probably take definite steps to stamp out the plain-clothes troops, volunteers, and other more or less disorganized forces still opposing the Japanese occupation.

As the result of the Peiping Peace Preservation Committee having made a grant of $20,000 a month for public education, all municipal primary and middle schools were able to open on September 21st. The universities formerly supported by the National Government, however, such as Peking University (Peita) and Peiping University (Pingta), are in a very bad way, and so far none has been able to open. Prospects for the opening of these institutions are poor, as not only are no funds available but the Japanese regard both faculty members and students with extreme suspicion and are doing their best to make Peiping unpleasant for them.

The Catholic University (Fu Jen) and Yenching University are both open, as are most of the mission-supported middle schools. The College of Chinese Studies is planning to open in October as in past years.

19. Dissatisfaction with Italian Airplanes.

Captain Roberts reports from Nanking that he hears numerous complaints concerning the performance of planes purchased from Italy. The motors of the Fiat planes are said to burn up in power dives, while the Bredas, though performing better than the Fiats, are considered much inferior to American planes.

General dissatisfaction with the work of the Italian Air Mission has resulted in the non-renewal of many contracts, so that the personnel of the Mission has dropped to twenty-eight. The Mission is reported to have spent $6,000,000 at Nanchang, with very unsatisfactory results.

20. Japanese Naval Attache on Bombing of Non-Combatants.

A Reuter despatch from Shanghai of September 27th quotes Rear Admiral Honda, Naval Attache to the Japanese Embassy, as follows: "If it becomes necessary to bomb non-combatants by virtue of their residence near military objectives, such bombing will be duly carried out regardless of the loss of life." Admiral Honda further stated that bombings under such conditions were accepted by the Hague Air Convention of 1923.

Under the same date, Domei quoted the spokesman of the Japanese Foreign Office in Tokyo to this effect: "It is impossible for Japanese planes to make non-combatants the objective of their attack."

Foreign press reports of civilian casualties in the air raids on Canton on September 22nd and 23rd were grossly exaggerated, according to the Foreign Office spokesman, who claimed that while one foreign report put the number of civilians killed at over 2,000, careful investigation showed the number to be only twenty.

Comment on the above statements appears unnecessary.

21. Chiang Kai-shek Elated over Return of Communists to the Fold.

On September 23rd Reuter reported that Chiang Kai-shek had issued a manifesto in which he described the recent declaration by the Chinese Communist leaders of loyalty to the Central Government as "an outstanding instance of the triumph of national sentiment over every other consideration." The manifesto is said to accept gladly the services of any political organization that sincerely desires to stem foreign aggression and work for the cause of the Nationalist Revolution under the leadership of the Kuomintang.

It is interesting, and at the same time rather sad, to observe the eagerness with which numerous Chinese in Peiping, including many well informed persons, look for indications that the Red armies are actively engaged against the Japanese. The general impression seems to be that the Reds will fight with great ardor and success, having been thirsting for such a long time for a taste of Japanese blood. Little consideration, if any, seems to be given to the thought that the Reds will have no artillery or airplanes and probably very little of any other munitions of war except such amounts as Nanking can spare them.

In addition to the reports that the Shensi Reds have been organized into the 8th Route Army, Domei prints a report from Nanking that the Reds in Kwangtung Province have been incorporated into the 157th Division of the Kwangtung Provincial troops, as have another group of 10,000 Reds operating on the Kwangtung-Fukien border.

Joseph W. Stilwell,

Joseph W. Stilwell
Colonel, Infantry
Military Attache

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COMMENTS ON CURRENT EVENTS

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1. Peiping Now Peking.

The Standing Committee of the Peking Peace Preservation Commission announced on October 12, 1937, that the old name "Peking" will be officially used for this city hereafter instead of "Peiping." The name "Peking," meaning "Northern Capital," was abolished in 1928 when the Nationalists established the capital of China at Nanking, which means "Southern Capital." "Peiping" means "Northern Peace."

The Peace Preservation Commission has also decided to change the names of all streets in Peking whose present names savor of Kuomintang influence, such as "Chungshan Road," "Tangpu Street," and so on.

2. Peace Talk.

On October 12th, the Peking and Tientsin Peace Maintenance Commissions issued a joint declaration calling upon the Chinese people to rise up and appeal to their government to suspend hostilities immediately and settle their differences by diplomatic methods. The declaration blames the Communists for aggravating the Lukowchiao incident into the present conflict, chastises Nanking for tolerating the Reds and prolonging resistance, and warns of the danger that Western countries may profit from the war to the detriment of China and Japan. The declaration further states that as Japan has repeatedly disavowed any designs on Chinese territory and has made it clear that her only aim is to awaken the Chinese Government to its mistakes, further resistance is useless. This movement was backed up by a joint peace manifesto issued by the Shantung Guilds in Peking and Tientsin on October 13th.

These feelers for peace seem to support rumors which have been in circulation for some weeks that Japan desires to bring her campaign in China to at least a temporary close before the severe winter cold sets in. To accomplish this purpose, say the reports, the Japanese Army is exerting every effort to clear Hopei, Shansi, and Suiyuan of Chinese troops. Chahar, of course, is already in the bag, and Shantung is expected to fall without a struggle, so that the stage is nearly set for the establishment of a five-province autonomous regime north of the Lung-Hai Railway.

It is generally believed, however, that before the Central Government will submit to a peace involving the loss of North China, the Japanese will have to win a smashing victory in Shanghai, which they have not yet been able to do. As long as Chinese troops can hold out in Shanghai, Chinese morale is certain to remain high, and it seems unlikely that Nanking would conclude a humiliating peace. If Shanghai is lost, however, and Nanking seriously threatened, it is expected that the Central Government must listen to almost any terms which Japan is willing to offer.

Every indication points to the conclusion that Nanking has considered North China as lost since the outbreak of hostilities. The Central Government has sent only a few of its good troops north, and has held the most of its artillery, and all but a few of its planes, south of the Yellow River, which would seem to show that Chiang Kai-shek, despite loud talk to the contrary, never had any real intention to fight for North China. Hence if Japan can be stalled off for the present, the price for peace would not appear too dear.

To sum up, it is believed that the prospects for peace in the near future depend largely upon the result of the present Japanese offensive in the Shanghai area.

3. Future Government of North China.

The peace talk which has been going around in Peking and Tientsin has given rise to speculations concerning the new form of government to be set up in the five northern provinces. The Peace Maintenance Commissions which have been established in Peking, Tientsin, Kalgan, and other important cities are generally looked upon as temporary expedients to effect a shadow of Chinese administration in areas from which the former organs of government have been driven out by Japanese occupation. There has been some talk that the present Peking and Tientsin Peace Maintenance Commissions will be expanded into a governing body for North China, but definite indications to this effect are lacking.

Major General Kita, Chief of the Japanese Special Military Mission in North China, who is commonly believed to be charged with the task of forming a new government in this area, left Tientsin for Tokyo on October 4th for the purpose, so reported, of discussing the new regime with heads of the Japanese Government. General Kita has returned to Tientsin, but the results of his visit to Tokyo, if any, have not been disclosed.

Vague rumors are heard, as is to be expected, that North China will be made a part of Manchukuo and that Emperor Kang Te will be placed upon the Dragon Throne in the Forbidden City. It seems far more likely, however, that the new government will take the form of a five-province autonomous state, completely divorced from even a semblance of control by Nanking. Who will be the stuffed shirt to head this puppet government, if and when it is set up, is a question of little importance. The latest name to be mentioned for the place is that of Tsao Kun, the ex-mafu who rose to be President of China in 1922. He would do as well as anyone else.

Indicating that a new regime for North China may not be far off is the well substantiated report that recruiting has begun in Tientsin and Peking for a "North China Autonomous Army." Little definite news on the subject is available, but it seems possible that the Japanese may be encouraging the organization for use later as evidence of a desire on the part of the people of North China for an autonomous form of government.

4. Shantung and Shansi to Turn Over to Japan?

Captain Frank Dorn, F.A., of this office, now in Tsinan, reports that Shantung is on the point of concluding a separate peace with the Japanese. He expects definite news of this move to break within a few days. According to Captain Dorn, the movement for a separate peace in Shantung has been definitely under way since October 13th, and was originally initiated by a group dominated by General Ke Kuang-ting, head of the Kiao-Tsi Railway, who is known to be decidedly pro-Japanese.

Han Fu-chu, Chairman of the Shantung Provincial Administration, who sewed himself up with an unequivocal pledge to resist Japanese aggression and to obey the orders of Chiang Kai-shek on September 29th, still further committed himself on October 9th in the following words: "It has long been my determination to resist the Japanese in the open, and I am prepared to resist the Japanese invasion to the last man. If Tsinan cannot be saved from a Japanese bombardment, we shall die with the city."

In spite of these blasts, Han has undoubtedly known of, if not actually engineered, the movement for a separate peace. He has, however, kept aloof from it as much as possible, probably desiring to run with both the Chinese hare and the Japanese hounds as long as he can. It is expected, however, that in the end he will give in to the desires of the peace party on the plea that he can no longer resist the will of the people of Shantung. As to the attitude of the five division commanders in Han's Third Route Army; two are said to favor the peace plan, the sentiments of one are unknown, and a fourth is believed to be indifferent. The fifth of the division commanders is reported under arrest. Captain Dorn believes that Nanking is fully cognizant of the move for a separate peace.

Strong indications that Japan has for some time expected Han Fu-ch'u to deliver his province without much fighting are the following:

(1) After reaching points south of Pingyuan on October 15th, the Japanese forces operating on the Tsin-Pu Railway have halted their advance.
(2) Only one of Han Fu-ch'u's divisions is reported to have fought against the Japanese on the Tientsin-Pukow Railway.
(3) The Kiao-Tsi Railway, between Tsingtao and Tsinan, is almost the only line in China which has not been bombed by Japanese planes.
(4) The Japanese have refrained from taking over Tsingtao.

As to the situation in Shansi, the fact that the Japanese advance southward toward Taiyuan appears to have halted for the time being suggests the thought that the Japanese may be negotiating with Yen Hsi-shan to turn over his province without further resistance. It is also possible that the Japanese feel that when Han Fu-ch'u comes into the Japanese fold, Yen Hsi-shan will probably follow soon after him.

5. Chinese Relations with Soviet Russia.

General Lepin, Military Attache of the Soviet Embassy to China, left Nanking for Moscow by air on October 7th. His departure, following that of Mr. Bogomoloff, the Soviet Ambassador, on September 27th, has given rise to a host of rumors that China is about to sign a mutual assistance pact with Russia, and that the latter will come definitely to China's assistance in the immediate future. The latest reports from Japanese sources are that the views of General Lepin and Mr. Bogomoloff are widely divergent concerning the action which Russia should take in the present situation.

Domei, on October 2nd, came out with a report from Harbin that Headquarters of the Soviet Far Eastern Army had recently been moved from Harbarovsk to Irkutsk, indicating an intention on the part of the Soviet Union to secure Outer Mongolia as a base of activities for creating disturbances in the rear of Japan and Manchukuo.

While the sudden departures of Mr. Bogomoloff and General Lepin are believed to indicate that important matters concerning China are under discussion in Moscow, well informed opinion is generally that Russia will not take the field in support of China at this time.

6. Conditions in Shanghai.

Reports from Shanghai state that conditions are gradually returning to a semblance of normalcy, although there are almost daily reports of deaths and woundings from shells falling in Hongkew, the International Settlement, and the French Concession.

On October 6th about 500 persons of British nationality, mostly women and children, recently evacuated from Shanghai to Hongkong, returned to the former port. Unsatisfactory conditions in Hongkong and the inconvenience entailed by the separation of families are given as the principal reasons for the return of the refugees. After the arrival of this contingent, the British Consulate General issued a statement strongly advising against the further return of evacuees.

Three hundred thousand cotton mill workers are reported out of employment in Shanghai, although ten of the thirteen mills located in the western part of the city are now in operation.

7. Cholera.

On October 4th, cholera cases in Shanghai were reported still on the increase. On that date the total number of confirmed cases in the International Settlement was reported at 1,069, with 241 deaths.

In spite of the advent of cool fall weather, which has largely removed the possibility of a cholera epidemic in the Peking-Tientsin area, public health authorities of the two cities have recently been making much of a cholera prevention campaign. Numerous broadcasts have been made on anti-cholera measures, and anti-cholera posters have been posted in many places. Many Chinese entering the city from the country districts have been required to submit to inoculations against the disease, and the Peking Board of Health has announced that every Chinese resident of this city should be inoculated.

Inoculations on such a large scale have caused foreign doctors to express doubts concerning the quality of the vaccine used, as the normal sources of supply of such vaccine are entirely inadequate to meet the demands created by the health campaign of the local authorities.

The Butterfield and Swire Company steamer "Shuntien" carrying twenty first class and 400 deck passengers from Shanghai, was recently held in quarantine off Taku for over two weeks. Cholera cases had developed during the voyage, and the authorities at Taku were apparently in a panic lest the passengers should spread the disease ashore. All efforts to get the first class passengers, among whom were several foreigners, ashore were unavailing until port officials had satisfied themselves that all possible preventive measures had been taken.

8. Conditions in Tsingtao and Chefoo.

Japanese property in Tsingtao, from which port all Japanese nationals have been evacuated, remains intact and normalcy prevails in the city, according to a Domei report. Places of amusement, such as theatres, picture houses, and the race-track, are reported in operation, but other business is at almost a complete standstill. Tsingtao and vicinity are now garrisoned by troops of Yu Hsueh-chung, Pacification Commissioner of Kiangsu. Yu was formerly Chairman of the Hopei Provincial Administration, and a commander of Northeast Army troops under Chang Tso-lin and Chang Hsueh-liang. He is a Shantung man and enjoys an excellent reputation for courage and honesty.

Reuter reports that military authorities in Chefoo recently notified all ships in the port, merchantmen and war vessels alike, that they must vacate the harbor in two days, as it was proposed to blow up the wharf and mole in order to prevent the landing of Japanese warships. This action brought forth a strong protest from the United States Navy as well as from the American Consulate. Chinese business men in the city also protested, pointing out that the Japanese were much more likely to land in Tsingtao than in Chefoo.

9. British Ambassador Leaves China.

Sir Hugh Montgomery Knatchbull-Hugessen, the British Ambassador to China, who was seriously wounded by a machine gun bullet fired from a Japanese airplane while he was en route to Shanghai by motor car from Nanking on August 26, 1937, left Shanghai on a tour to recuperate his health on October 4th. Sir Hugh and his family arrived in Manila on October 8th and left at once for Baguio, where they planned to remain a week before sailing to the East Indies.

According to press reports, it is expected that the British Parliament will grant Sir Hugh five thousand pounds in view of the seriousness of his wound and the possible danger to his future health.

10. Japanese Planes Again Shoot at British Subjects.

On October 12th, two passenger automobiles and a baggage truck from the British Embassy in Nanking, while en route from that city to Shanghai, were machine-gunned by Japanese planes near Minghong, fourteen miles south of Shanghai. Four Britons were in the cars, including Flight Lieutenant Murray, Assistant Air Attache. Occupants of the cars fled into the fields when fire was opened and there were no casualties. The cars carried Union Jacks and British flags were also painted on the roofs.

The Japanese admitted that they had been notified concerning the trip in advance, but claimed that the aviators could not see the flags and that the cars were of a color similar to Chinese military automobiles.

On October 15th the British Ambassador in Tokyo delivered a note of protest containing demands for an official apology and assurances that the airmen responsible for the attack would be punished.

It is generally believed that the incident will be brought to an early amicable settlement.

11. Chinese Planes Bomb Tangku.

Four Chinese planes, reported as Northrup bombers from Shantung, bombed Tangku on October 14th. No damage was done.

12. Supply of Munitions to China.

According to a Tokyo despatch of October 10th, Japanese papers of that date give prominence to a report that Great Britain is now openly and vigorously supplying munitions of war to China through Hongkong. The Japanese papers claim that airplanes imported by China from abroad have been landed in Hongkong, assembled, and flown from that port to points in the interior of China. It is also claimed that huge quantities of other munitions including rifles, machine guns, artillery, trench mortars, and tanks have been landed in Hongkong.

Reuter reports that the Japanese Navy is now considering means to stop the flow of munitions into China through Haiphong, French Indo-China.

Transocean recently announced that the British Government has admitted that planes are to be delivered to China, but that the machines were ordered by the Chinese Central Government long before the outbreak of the present hostilities.

As previously reported, Russia has undoubtedly recently delivered planes to China, but no reliable reports have been received of any Russian pilots flying for the Chinese Army. Domei claims that large amounts of munitions are being delivered in Sian from Soviet Russia by truck. Considering that such deliveries would have to be made from Turkestan through Hami and Lanchow, it seems hardly probable that any considerable quantities could be transported over so long and difficult a road.

It was recently reliably reported that French planes and artillery had been delivered in Hankow. If such is the case, however, the route by which they arrived is not known.

The Tokyo Nichi Nichi recently claimed that munitions for China are being unloaded in Manila for transhipment to China.

It is to be expected that as long as China can buy munitions means will probably be found to deliver them in spite of the Japanese blockade, unless actual war is declared. As to whether the munitions can be delivered in sufficient quantities for China's requirements in a long war, and just how long China can find funds for the purchase of munitions, are questions difficult to answer.

13. Poison Gas.

The Chinese have recently charged the Japanese Army with having used poison gas in the Shanghai area. Dr. Ettinger, Chief Surgeon of the Red Cross Hospital in Nanking, and Dr. Boric, representative in China of the League of Nations Hygienic Section, have examined alleged gas casualties and have definitely stated that the men were suffering from the effects of mustard gas. The use of phosgene has also been alleged, but no casualties from this toxic agent have been reliably reported.

The Japanese have reacted to the charges of using poison gas by laying the same charges against the Chinese Army, and have exhibited fragments of gas shells, alleged to have been fired by the Chinese. It may be possible that the Japanese are thus seeking a pretext for the extensive use of gas in the Shanghai area, particularly if the Chinese lines from Shanghai to the Yangtze River continue to hold out against Japanese attacks.

Japanese news agencies have recently carried reports that China has purchased quantities of dum dum bullets abroad. Little importance is attached to the allegations. As a matter fact, it seems strange that any nation should be greatly concerned about the possible use of dum dum ammunition by an enemy army, as the wounds inflicted by shell fragments are usually much more severe than any which could be caused by dum dums.

14. Japanese Statements Concerning the War in China.

(1) Spokesman of the Japanese Foreign Office in Tokyo, October 1st (Reuter): "Japan desires neither foreign mediation in her dispute with China, nor the convocation of any international conference to deal with the controversy. Japan is determined to fight to the bitter end until China reconsiders her attitude and drastically alters her anti-Japanese policy. Japan does not want to make China solely dependent on her nor to take a part of China's territory."

(2) Formal statement by the Japanese Foreign Office, October 10th (Reuter): "The Japanese Government seeks merely the abandonment by China of her anti-Japanese policies and the establishment of enduring peace in East Asia through Sino-Japanese cooperation. Japan harbors no territorial designs in China and therefore Japan's actions contravene no existing treaties." (Note: the logic of the last quoted sentence is difficult to follow.)

Formal statements by Japanese civil officials mean little, even if made in all sincerity, unless it is known to what extent they are subscribed to by the Japanese Army.

(3) Proclamation by General Iwano Matsui, Commander in Chief of the Japanese Expeditionary Force in Shanghai, October 8th (Reuter): "The objectives of the Japanese Expeditionary Force are not only to protect Japanese vested interests and the lives and property of Japanese residents in

Shanghai, but also to scourge the Chinese Government and Army who have been pursuing anti-foreign and anti-Japanese policies in collaboration with Communist influences. The Japanese Army is sorry ('I am very sorry for you!') for the many innocent persons living in the area of hostilities. The Army has no enmity toward the Chinese people in general. Against those who bear arms against Japan, however, the Japanese Army will show no mercy."

The last quoted statement, in spite of its pious platitudes, has at least a ring of swashbuckling sincerity.

The Japanese Army spokesman in Shanghai admitted on October 11th that recent foreign press reports that the Chinese soldiers were better fighters than the Japanese had greatly embittered the Japanese troops. As reported, the remarks of the spokesman sound somewhat childish, and very much as if the Japanese Army could not bear to hear a good word spoken of even a courageous enemy.

15. Chinese Reaction to President Roosevelt's Chicago Speech.

President Roosevelt's Chicago speech of October 6th, in which he indirectly condemned Japan's actions in China, was applauded in all Chinese circles, according to reports from Shanghai. The utmost satisfaction is also reported to be felt by the Chinese over the State Department's recent action in condemning the Japanese invasion of China. The Chinese generally hail the statement of the State Department as marking a definite departure from the United States policy of strict neutrality and isolation. It is also felt in many quarters that the statement will strengthen the League in dealing with Japan.

In an interview on October 7th, Chiang Kai-shek voiced the sentiments of the Chinese people by stating that President Roosevelt's support of the sanctity of human rights heartens and gratifies not only the Chinese but all weak nations. The Generalissimo also took the opportunity to declare that China would continue to defend herself "even to the last man and last inch of her territory.

Satisfaction with and appreciation of President Roosevelt's speech and the action of the State Department has also been publicly expressed by the Chinese Foreign Minister, Mr. Wang Chung-hui.

16. National People's Congress Postponed.

The Chinese National Government has issued a mandate ordering the postponement of the National People's Congress scheduled to take place in Nanking on November 12th of this year. The sudden foreign menace and the necessity for resisting external aggression are given as the principal means for the postponement of the Congress.

This is the second time the Congress has been postponed, it having been originally scheduled to take place last November.

17. Boxer Indemnity Payments to Japan Suspended.

It was announced from Shanghai on October 5th that the National Government had decided to suspend further payments of the Boxer Indemnity to Japan during the present conflict. Further instalments as they become due will be deposited in the Shanghai branch of the Hongkong and Shanghai Banking Corporation, presumably for payment after the war is over.

The August instalment of the indemnity was paid, according to the announcement, "on the advice of a certain foreign diplomat." Payments due for the remainder of the year 1937 are said to amount to US$650,000.

Japanese in Shanghai are reported to be highly indignant over the suspending of the Boxer payments, branding the action as a violation of international faith, particularly as war has not been declared. The Japanese Government is expected to lodge a protest over the matter.

Outside of the Japanese, few will blame the Chinese for suspending these payments, particularly as China's own Boxer Indemnity institution, Tsinghua University near Peking, has not been able to open this fall, and is now occupied by Japanese troops.

18. Money and Banking.

The Japan Advertiser (Tokyo) carries a report that the Japanese are planning to make the notes of the Bank of Hopei the principal currency for use in North China. This bank was formerly practically owned by Sung Che-yuan, one-time Chairman of the now defunct Hopei-Chahar Political Council. After Sung's flight from Peking, the notes dropped sharply in value, but were subsequently bolstered up by the action of the Chinese banks in Tientsin and this city. The notes are now accepted without question in most places in Tientsin and Peking.

According to Domei, the Central Government recently decided to move the head offices of the four Chinese government banks (Bank of China, Central Bank of China, Bank of Communications, and Farmers Bank) from Shanghai to Nanking, but later reversed the decision in deference to the wishes of foreign bankers and business men of Shanghai. Captain F. N. Roberts, Infantry, of this office, now in Nanking, reports, however, that the Central Government is withdrawing many financial organs, including the government banks, from Shanghai to Nanking. The Customs Administration offices, however, are not to be moved from Shanghai.

Havas states that on October 5th the Chinese Government placed an order with the Vienna mint for 120,000,000 subsidiary nickel coins.

19. Movements of Chinese Leaders.

Dr. H. H. Kung, Minister of Finance, arrived in Shanghai on October 18th, after an absence of over six months. Dr. Kung headed the Chinese delegation to the coronation of King George VI of England. According to Reuter, Madame Kung has presented the Chinese Air Force with 37 trucks and 200 fur coats as an expression of appreciation of excellent service in the Sino-Japanese hostilities. Madame Kung is commonly reputed to be a very astute financier, who has made millions out of inside information concerning the financial operations of the Chinese Government.

Li Tsung-jen, the Kwangsi military leader and former implacable foe of Chiang Kai-shek, arrived in Nanking from Kweilin, capital of Kwangsi, on October 13th. Interviewed by reporters, he expressed the usual platitudes concerning the war. It is reported that Li is to command the forces on the Tsin-Pu Railway. Kwangsi forces have appeared in Shanghai and on the Tsin-Pu Railway, but not north of the Lung-Hai Railway line.

Feng Yu-hsiang, Assistant Secretary of War, recently active in directing operations in southern Hopei on the Tsin-Pu Railway, is reported to have gone to Kweiteh, Honan, According to reliable reports, he was cordially hated by the troop commanders with whom he has been serving. The fact that he court martialled a number of these for inefficiency may have something to do with his unpopularity. Feng, who once had a good reputation as a troop leader and disciplinarian, has long since ceased to carry much water among Chinese military men.

Chu Shao-liang, recently Pacification Commissioner of Kansu, assumed active command of the Chinese forces in the Shanghai area on October 3rd, replacing Chang Chih-chung, who has returned to Nanking. Chu's title in Chinese is "Front Line General Active Commander in the Field." Serving under him are Chang Fa-kuei, "Right Wing Commander," in the Pootung sector; Chen Cheng, "Center Commander," in the Chapei-Kiangwan sector; and Ku Chu-tung, "Left Wing Commander," in the Liuhang-Liuho sector.

It is reported that Ho Ying-chin, Secretary of War, is to be placed in command in Canton. Ho has been somewhat under a cloud since the outbreak of hostilities, being reputedly pro-Japanese.

20. Troubles of Generals.

General Chang Tze-chung, former Mayor of Tientsin and Commanding General of the 38th Division, 29th Army, is reported to have recently arrived in Nanking from Shantung. Chang has been often excoriated since the outbreak of Sino-Japanese hostilities as having been largely responsible for the loss of Tientsin and Peking. It is said that he is to be tried by Chiang Kai-shek.

Liu Chih, Pacification Commissioner of Honan and Anhui, is reputedly in hot water since the loss of Paoting. Liu, recently in command on the Ping-Han line, is said to have issued an order that any soldier who retreated would be shot, and then himself fled to Shihchiachuang.

Reuter reports that General Li Fu-lin, Commanding the 61st Route Army, has been shot by order of Yen Hsi-shan, Pacification Commissioner of Shansi and Suiyuan, for the loss of north Shansi to the Japanese.

According to Domei, General Lo Lin, Commanding the 77th Division in the Shanghai area, has been relieved of command and ordered to stand trial for having ordered a retreat from important positions near Lotien.

21. New Japanese Assistant Military Attache in Peking.

Lieutenant Colonel Takeo Imai, Japanese Assistant Military Attache to the Embassy in China, stationed in Peking, has been relieved of his post, as announced in the Official Military Gazette in Tokyo on October 13th. Colonel Imai will be succeeded by Major Hiroyuki Yoshino.

According to Japanese military circles in Peking, Colonel Imai is considered a brilliant young officer who is due for rapid promotion to high rank and command. Colonel Imai's high reputation among Japanese, however, is not reflected among the foreign officers and newspaper men who have come in contact with him in Peking. In these circles he is rated as a man of pleasant personality but decidedly mediocre ability.

22. Punishment for Offenses Against the Japanese Army.

Headquarters of the Japanese North China Garrison in Tientsin has promulgated regulations for the punishment of Chinese and foreigners committing offenses against the Japanese Army. Treachery, espionage, assistance to enemies, and instigation of such acts are the principal offenses enumerated. Punishments include death, detention, expulsion (banishment), fines, and confiscation of property.

Sixteen persons were executed in Peking on October 5th for tampering with the Japanese telephone line between Nanyuan and Fengtai. Interference with military communication lines was recently made a capital offense by the Peking Chinese authorities, supposedly acting under the prompting of the Japanese Army.

23. Communications.

Eight trains are now in operation daily on the Peining Railway between Peking and Tientsin; six freight trains and two passenger trains. The faster of the passenger trains, the so-called "express," takes over six hours to make the run to Tientsin, while the slower requires over nine hours. Trains are crowded and dirty, and conditions of travel generally unpleasant.

The first passenger train to leave Peking over the Peking-Suiyuan Railway for Kalgan since the end of July, when communication between the two cities was suspended, left here on October 16th. It will be some time, however, before anything like regular service is restored on this line, as much of the rolling stock has been destroyed, and of what remains, most of it is required for Japanese military use.

Japanese military authorities in Peking stated recently that decided improvement in train service from Shanhaikwan to Peking could be expected in the near future, intimating that heavy Japanese troop movements inside the Great Wall are almost completed.

News of great importance to ships in waters off the coast of China was contained in a recent announcement from Shanghai to the effect that Sir Frederick Maze, Inspector General of the Chinese Maritime Customs, had concluded an arrangement with the Japanese Navy whereby the coastal lights of China would be maintained without interruption.

Joseph W. Stilwell,

DDB

Joseph W. Stilwell
Colonel, Infantry
Military Attache

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COMMENTS ON CURRENT EVENTS

October 20—November 6, 1937

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1. Peace Talk.

Many rumors, but few if any definite developments, summarizes the situation as far as peace prospects are concerned. The Havas News Agency (French), in a London despatch of October 30th, claimed to have learned from diplomatic sources that Japan would consider peace upon the following terms:

(1) The independence of Inner Mongolia.
(2) Autonomy of the five northern provinces of China.
(3) Withdrawal of China from the League of Nations.
(4) Scrapping of the Chinese military aviation service.
(5) Fishing rights for Japan between Formosa and Hainan Island.
(6) During the truce preceding the signing of the peace treaty, Japan to occupy territory near Shanghai with access to the sea.

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Also under date of October 30th, the Paris l'Oeuvre stated that peace terms, substantially as enumerated above, had already been conveyed by Japan to the Chinese Central Government. The day following the publication of the alleged terms, the Japanese Embassy in London officially denied that Japan had approached the Chinese in any way relative to peace on any conditions.

As yet nothing has emanated from the Chinese side indicating a desire to negotiate for peace except under conditions to which Japan seems very unlikely to agree at the present time. Indicative of the Chinese attitude, Dr. Wellington Koo, the Chinese Ambassador to France, stated in Paris on October 29th that conciliation is not possible between Japan and China while the territory of the latter is being invaded. Dr. Koo also stated to the United Press on October 31st that while China is prepared to accept mediation, she is determined that Japan should be forced to respect her pledges under the Nine Power Treaty.

The United Press, in a despatch from Brussels under date of October 30th, claims to have learned that Japan is willing to accept the United States as a mediator in the present situation, providing China first agrees to open direct negotiations with Japan. This is taken to mean, according to the despatch, that Japan would set the peace terms before any mediator would be called in.

In spite of all reports that China will not discuss peace terms at the present time, despatches from Tokyo indicate a feeling in Japan that peace is not far off. According to Domei, a strong movement is on foot in government circles to effect the formation of a "General Headquarters" for the purpose of bringing about a speedy termination of the armed conflict with China and effectively winding up the aftermath of the hostilities. Domei states that this new organ will probably come into being the middle of November, and will be composed of the Chiefs and Vice-Chiefs of the Army and Navy General Staffs, the War and Navy Ministers, and the Premier. (Note: The order of the members is as given in the original despatch.)

In local circles, the general opinion is still entertained that Japan is anxious to bring the present campaign in China to a close before the end of the year, and will offer peace terms when the subjugation of the five northern provinces has been completed and Chinese forces have been driven away from Shanghai, - two objectives which seem likely to be accomplished in the immediate future. According to Captain Sutherland, of this office, now in Soochow between Shanghai and Nanking, the same opinion concerning the near advent of peace prevails in that locality.

As to the effect on a possible peace of the deliberations of the Nine Power Conference now in session in Brussels, it would appear to be to the advantage of the Japanese to force a peace, if possible, before the Conference has reached any definite conclusions as to a means of settling the present situation. On the other hand, it would seem that China has nothing to lose and may gain something if she can stall off a dictated peace until the Powers now in session have done their best to alleviate the situation.

Sounding the militaristic note among the present peace rumors, General Matsui, commanding the Japanese Army forces in the Shanghai area, in an interview on October 31st with the Shanghai representative of the Berlin Deutsche Allgemeine Zeitung, stated that the situation in China would soon be such as to make the Nine Power Conference unnecessary. General Matsui also stated that a decision would soon be reached in Shanghai, but that if necessary the Japanese Army would march to Nanking and Hankow. This statement seems to support the general impression that Japan is anxious for peace in China in the near future.

In considering the terms upon which Japan is reported to be willing to offer peace, one is reminded of the fact that Major General Doihara, acting independently and without the official backing of the Japanese Government, almost succeeded in 1935 in detaching the five northern provinces completely from the control of the Chinese Central Government, an objective which 400,000 Japanese troops have now been fighting for some four months to attain.

To risk a prediction, this office ventures the opinion that peace will either have been effected or be in process of negotiation between China and Japan by January 1, 1938.

2. Anglo-Japanese Relations.

(1) Minghong Incident Settled.

The Japanese Government has apologized for the machine gunning from the air of three automobiles from the British Embassy in Nanking while en route to Shanghai on October 12th. The Japanese have also stated that appropriate measures will be taken against the persons responsible. The British Government has announced that it now considers the incident closed, but has requested that it be informed in due course concerning the "appropriate measures."

As an aftermath of the Monghong incident, the British Consul General in Shanghai announced on October 20th that all British subjects intending to travel by road from Shanghai to Nanking should notify the Consulate General, all such journeys to be made at the risk of the travellers.

(2) Killing of British Soldiers in Shanghai.

One soldier of the Royal Ulster Rifles died on October 24th from wounds inflicted by machine gun bullets fired from a Japanese plane which power-dived over Keswick Road, part of the defense perimeter of the British sector, and opened fire on a British redoubt.

The Japanese Foreign Office formally apologized for the incident, which is now considered closed.

Three more men of the Royal Ulster Rifles were killed and several wounded on October 29th by shells falling in the western defense sector of Shanghai. One of the wounded subsequently died. The shells were fired during an engagement between Chinese and Japanese troops. The Japanese at first denied that any of their artillery was in action at the time the shells fell in the British sector, but later admitted responsibility and on November 1st the Japanese Foreign Office conveyed an expression of regret to the British Ambassador in Tokyo, promising disciplining of the responsible parties and adequate measures to avoid similar occurrences in future.

A British outpost near Jessfield Park, on the western border of the International Settlement, was machine gunned from a Japanese plane on October 27th. There were no casualties. The British fired on the plane, which flew off. British troops in the Shanghai area have been ordered to fire on any planes which threaten to attack them.

Domei reported on November 4th that a Japanese plane flying over Chinese positions near the British defense sector had been fired upon and damaged by British troops. The plane, according to the report, was able to return safely to its base.

(3) Japanese Body Passes Resolutions Against Great Britain.

An unofficial body in Tokyo, known as "The Council on the Current Situation," composed principally of members of the Lower House of the Diet and leading industrialists, passed resolutions on October 30th stressing the need of immediate steps to start a national movement to sever diplomatic relations with Britain. The resolutions, as reported by Reuter, denounced the British attitude on the China incident as "arrogant and insulting toward Japan." Britain was further blamed, according to the report, for having taken a leading role in the convocation of the Nine Power Conference, with the apparent object of forcing international intervention in China. It was later reported that the resolutions contemplated only a "moral and spiritual rupture with Great Britain."

Havas News Agency in a London despatch of November 2nd states that the action of this body has created considerable stir in England, and given rise to talk of a revival of an anti-Japanese boycott movement. Agitation for such a boycott, according to Havas, has recently died down due to opposition in government circles.

(4) Alleged Sinking of Chinese Junks by Japanese Submarine.

Reuter reported from Hongkong under date of September 27th that the German steamer "Scharnhorst" had arrived in the port that day with ten Chinese who had been picked up at sea. These Chinese claimed to be the sole survivors out of 300 persons on board twelve fishing junks attacked and sunk by a Japanese submarine off Cheelongkau Point, near Hongkong, on September 22nd.

As the junks were under Hongkong registry, the Supreme Court of the Colony appointed a committee to investigate the affair. This body concluded its deliberations on October 22nd, but its findings have not yet been published.

Allegations by the Chinese picked up at sea that their junks had been sunk by a Japanese submarine were categorically denied by the Japanese Navy. This denial, however, was somewhat qualified by a statement made later by the Japanese Foreign Office to the effect that the junks had carried cannon and were really Bias Bay pirate craft, which circumstance would have entirely justified their sinking by Japanese war vessels.

(5) Japanese to set up their own Lloyds.

Reuter reports from Tokyo that representatives of fifteen major Japanese marine insurance companies have decided to sever relations with Lloyd's Insurance Company, and to form a Japanese counterpart of this famous firm to handle war shipping risks for Japan, Korea, and Manchuria. The action is said to be in protest against Lloyd's recent decision to raise war risk rates on Chinese and Japanese vessels.

(6) Great Britain Concerned over Maritime Customs.

Havas reports from London that Mr. Anthony Eden, the British Foreign Secretary, recently stated in the House of Commons that his Government was anxious to preserve the normal functioning of the Chinese Maritime Customs. Considering the amount of loans advanced by Great Britain to China on the security of the Customs revenue, this anxiety appears entirely justified.

3. American-Japanese Relations.

(1) Protest Against Japanese Attack on Keswick Road.

American consular authorities in Shanghai protested on October 25th against the Japanese air attack on Keswick Road, near the western border of the International Settlement, in which a British soldier was killed (see item 2 above). A number of American civilians on the road at the time were endangered by the fire from the Japanese plane.

Just previous to the Keswick Road incident, Vice-Admiral Harry E. Yarnell, Commander-in-Chief of the United States Asiatic Fleet, had made representations to Vice-Admiral Hasegawa, Commanding the Japanese Naval Forces in Shanghai, in connection with numerous instances in which Japanese shells, anti-aircraft shrapnel, and bombs from Japanese planes had fallen in the sector of the Settlement guarded by United States Marines, with resultant loss of life and injury to non-combatants. At the time of Admiral Yarnell's protest, similar representations were made by the American Consul General in Shanghai to the Japanese consular authorities.

On October 27th, Admiral Yarnell issued orders that in case of an attack by machine guns or bombs from planes of any nationality on the defense forces or non-combatants in the U. S. defense sector, the Marines on guard should open fire in self-defense. This order was in extension of the instructions issued on September 2nd to all ships of the Asiatic Fleet authorizing defense measures if endangered from the air.

(2) Japanese Angered at American Newspaper Man.

Mr. Haldore Hansen, an American correspondent for the Associated Press, was recently granted permission by the Japanese to visit Paoting, Hopei, after the capture of that city. While in Paoting, Mr. Hansen was constantly under surveillance by the Japanese Army, but managed to send back to Peking an account of looting which he saw engaged in by Japanese troops. When this story appeared in a Honolulu paper it was clipped and sent back to local Japanese military headquarters.

Several days ago Mr. James White, Peking representative of the Associated Press and Mr. Hansen's employer, was called to Japanese headquarters by Lieutenant Colonel Junzo Hiraoka, press contact officer. Colonel Hiraoka showed Mr. White the clipping and flew into a violent rage, shouting, "Hansen should be killed!", and bitterly berating him for having written false reports of the Japanese Army, and accusing him of being anti-Japanese. He cooled down considerably when Mr. White reminded him that his ranting would not look well in print. Mr. White also called attention to the fact that Mr. Hansen had a perfect right to be in Paoting and to report his personal observations.

The incident is of slight importance, and is reported merely to show the extreme sensitiveness of the Japanese Army to any adverse criticism.

4. American Chinese Relations.

(1) American Ambassador Protests Against Flights Over Shanghai Settlement.

On October 20th the American Ambassador in Nanking protested to the Chinese Government against the flight of Chinese bombers over the Foreign Settlement of Shanghai during night raids on the Japanese. The protest drew attention to the serious danger to the foreign Settlement caused by this action of the Chinese planes and pointed out the great number of deaths and injuries among non-combatants from bombs and anti-aircraft shells. At the time this protest was made, similar representations were made to the Japanese authorities in Shanghai by Admiral Yarnell, Commander-in-Chief of the United States Asiatic Fleet, and Mr. Gauss, United States Consul General in Shanghai.

(2) Capture of American Priest.

Father Gerard Donovan, an American priest, was captured by bandits near Fushun, Manchuria, during the early part of October. According to the last news of Father Donovan, received on October 22nd, he was being held near Tsingyuan, northeast of Fushun, for $50,000 ransom.

On October 9, 1937, Bishop Schraven, a Dutch citizen, and eight other missionaries were kidnapped from the French Catholic Mission at Chengtingfu, Hopei. The group included foreigners of Dutch, French, Austrian, Polish, and Czechoslovakian nationality. The kidnapping was effected in the confusion attending the Japanese capture of the city which had occurred the day before.

5. Mayor of Shanghai Praises Gallantry of Foreign Troops.

Reuter reports that the gallant and humane conduct of foreign troops who have recently risked their lives to rescue refugees and render first aid has created a most favorable impression upon the Chinese.

Mr. O. K. Yui, Mayor of Greater Shanghai, is quoted as having said recently that the whole Chinese community joined in thanking the British troops, the United States Marines, and the Savoy Grenadiers for many acts of succor. He mentioned as a typical act of gallantry the rescue of fifteen Chinese women and children who were trying to cross the Shanghai-Hangchow Railway bridge over Soochow Creek on the western edge of the International Settlement. Risking their own lives, the British troops assisted the entire party to safety in the face of Japanese machine gun fire, carrying several wounded on their backs.

6. German Praise of Chinese Soldiers.

Transocean, the German News Agency, under date of October 28th quotes the Berlin *Boersen Zeitung* as follows: "The Chinese Infantry, with but slight resources at its disposal, is valiantly maintaining its military honor." This paper, according to Transocean, usually reflects the opinions of the German Ministry of War. The article praises the determination and will of Chinese soldiers, and states that they have valiantly upheld the honor of their country in the face of determined attacks.

7. German-Japanese Relations.

(1) German Consul General in Shanghai Protests Against Bombings.

Under date of October 19th, Reuter reports that the German Consul General in Shanghai has protested to the Japanese authorities against the bombing of German-owned houses on the western outskirts of Shanghai.

(2) German Merchants in Shanghai Complain Against Japanese Acts.

Transocean, October 25th, reports that at an extraordinary meeting of the German Chamber of Commerce of Shanghai, bitter complaints were made concerning Japanese interference with foreign trade, particularly in refusing to permit withdrawal of merchandise, said to value millions of dollars, stored in warehouses in Yangtzepoo, even after all military necessity for such action had ceased. Dr. Trautmann, the German Ambassador to China, was present at the meeting and promised to do his best to have the situation remedied. Apparently some Germans do not welcome bombing of their property and impounding of their merchandise even at the hands of allies.

(3) German Cooperation in the Economic Exploitation of North China.

Dr. Hans Luther, Premier of Germany before the Hitler regime and a former German Ambassador to the United States, arrived in Tientsin on October 30th, after a trip through Japan and Manchukuo. In an interview with a Domei representative, Dr. Luther said, "I have heard that Japanese financial circles welcome foreign capital in the economic exploitation of North China. Since our trade relations are so satisfactory with Japan, I believe Germany is prepared to cooperate positively with Japan in the economic exploitation of North China." Dr. Luther is also reported to have expressed astonishment at the development of Manchukuo in every field of activity. German trade relations with Manchukuo, said Dr. Luther, are very satisfactory since the conclusion of the trade agreement between the two countries.

Whether there will be a rush on the part of capitalists of nations other than Germany to invest capital in a Japanese-controlled North China is a matter open to considerable question.

(4) German Officer Welcomed in Japanese Lines at Shanghai.

Major General Ott, Military Attache to the German Embassy in Tokyo, was recently entertained in Shanghai by General Matsui, commander-in-chief of the Japanese Army forces in that area, according to a Domei report of October 19th. The report further states that General Ott was taken to Liuhang and Lotien, scenes of recent bitter fighting between the Chinese and Japanese. General Ott is said to have expressed astonishment that the Japanese were able to take these two strongly fortified towns.

8. Italian-Japanese Relations.

(1) An Italo-German-Japanese anti-Comintern Pact was signed in Rome on November 6th.

(2) Italian Soldier Killed in Shanghai.

A soldier of the Savoy Grenadiers was killed by an anti-aircraft shell alleged to have been fired during a Chinese air raid on Shanghai on October 27th. At the time of his death the soldier was on duty in the Italian defense sector between the British and American sectors.

9. Soviet-Japanese Relations.

(1) Alleged Soviet Concentration in Outer Mongolia.

Domei quotes the Harbin correspondent of the Tokyo *Asahi* to the effect that the Red Army normally stationed in the eastern Ural Mountains is being concentrated in Outer Mongolia. This information is reported to have been secured from a traveler who recently arrived in Harbin from Siberia, who is said to have observed many Soviet troop trains moving east between Krasnoyarsk and Novosibirsk.

This office is in frequent receipt of reports from travelers who state that Soviet forces are being concentrated in Eastern Siberia, but unfortunately none of these reports has come from qualified military observers.

(2) Border Clashes.

Domei reports a clash between Soviet guards and Manchukuo border patrols on October 26th on the Tumen River on the Soviet-Korean border. A United Press despatch from Moscow states that the first border clash since the settlement of the Amur River Islands dispute occurred on October 28th when Japanese-Manchukuoan troops fired on a Russian border guard near Pakehokoi, on the Manchukuo-Siberial border, near the Korean northern border.

(3) Moscow Says Russo-Japanese War Not Likely.

Havas, under date of November 3rd, claims to have learned in Moscow that political circles there are generally optimistic and discard the possibility of a Russo-Japanese war in the near future. Encouraging signs of good relations between the two countries are said to be the cessation of border clashes and the ceasing of attempts on the part of the Japanese to rectify the Soviet-Manchukuo border. Apparently the thought does not seem to have struck the Moscow authorities that Japan may have been too busy in China recently to concern herself with border brawls and boundary disputes.

The same Havas report states that Moscow political circles categorically deny any intention on the part of the Soviet of denouncing the pact with Outer Mongolia so as to permit the troops of the latter country to fight for China.

Concerning the possibility of war between Japan and Russia, an observer from this office now in Nanking states that considerable significance is attached in the Chinese capital to a statement recently made in Berlin by General Chiang Po-li, who has just been sent to Germany as a special envoy from Chiang Kai-shek. According to press reports, General Chiang stated that a decisive turning point in the present conflict in China's favor may be expected in six months. This is taken to mean, according to our observer in Nanking, that Japan will attack Russia at the end of that time, which would of course bring Russia into the war on the Chinese side.

Vague rumors, considered of no importance, have been heard from Chinese sources that Russia will send troops to China's aid around November first, when the rivers in Manchuria will be frozen over, supposedly permitting easy dispatch of Soviet troops into Manchuria. The Ides of November have now gone, but no Soviet troops have appeared. It is the opinion of this office that Russia will fight Japan only if and when she is attacked by the latter.

10. Soviet-Chinese Relations.

(1) Bogomoloff and Lepin Disagree on Aid to China.

In our last Comments on Current Events, reference was made to reports concerning a difference of opinion between Mr. Bogomoloff, the Soviet Ambassador to China, and Major General Lepin, Military Attache to the Soviet Embassy in Nanking, both of whom are now in Moscow, concerning the best means of helping China in the present crisis. According to the Tokyo *Nichi Nichi*, Mr. Bogomoloff favors cancellation of the independence of Outer Mongolia and a return of this territory to China, a move which would make it possible to use the Outer Mongolian Army to attack Manchuria. General Lepin, according to the report, is not in favor of giving back Outer Mongolia and is of the opinion that Soviet assistance to China should be limited to supplying munitions of war and to efforts to secure joint action on the part of the Powers concerned to restrain Japan's advance. Stalin, the Soviet Dictator, says the *Nichi Nichi*, has partially acceded to Mr. Bogomoloff's recommendations and is considering the abrogation of the Soviet-Outer Mongolian alliance, the recognition of China's suzerainty over this territory, and the placing of the Outer Mongolian Army under the control of Nanking for operations on the Mongolian-Manchurian border.

(2) Alleged Sino-Soviet Pact.

Domei on October 24th announced from Tokyo that it had learned the provisions of a Sino-Soviet secret military agreement as follows:

(a) China to recognize the independence of Outer Mongolia.

(b) The Soviet Union to send military experts as well as arms and munitions to China.

(c) China and Outer Mongolia to cooperate in a common defense in the event of a Japanese invasion of the latter.

(d) The Soviet Union to furnish arms and munitions to the Chinese Red Army on the account of the Chinese Central Government.

Reports of this kind are to be expected periodically from Japanese sources, and are to be taken with great circumspection unless confirmed in other quarters.

(3) Return of Mr. Bogomoloff to China.

Domei claimed under date of October 28th to have learned from German sources in Berlin that Mr. Bogomoloff, the Soviet Ambassador to China, will shortly resign and be succeeded by Mr. Yanov K. Datchian, now Ambassador to Poland. This followed another Domei report of October 23rd from Tokyo that Mr. Bogomoloff would leave Moscow for China on November 7th.

11. Lytton Commission Member's Views on Sino-Japanese War.

The Tokyo Asahi, quoted in the Japan Chronicle, claims to have received a personal letter from General Andre Claudel, former member of the Lytton Commission now living in retirement in the south of France, expressing the opinion that had the League of Nations recognized Manchukuo in 1932, it would have led to the establishment of peace in the Far East. General Claudel states, says the Asahi, that he has held the view since 1932 that Sino-Japanese relations should be restored to normal by direct negotiation between the two countries, and that by this means the interests of both Japan and China, as well as of other powers concerned, can be adequately safeguarded. General Claudel expresses confidence in Japan's ultimate military victory in China, but warns Japan of the danger that sole reliance on military force may create an unbridgeable spiritual gulf between the peoples of the two countries.

The Asahi adds that at the time of the publication of the Lytton report, General Claudel expressed opposition to its general tone, but that his point of view was not accepted by the Commission.

12. Reorganization of the Chinese Central Government.

Domei claims, in a November 2nd Shanghai despatch, that Chinese Government leaders in Nanking have adopted the name of "General Headquarters" for the National Government during the present crisis and have reorganized the government as follows:

(1) Department of Military Affairs, General Chang Chih-chung.
(2) Politics and Foreign Affairs, General Hsiung Shih-hui.
(3) Munitions Industry, Mr. Wang Wen-hao.
(4) Economic Affairs, Mr. Wu Ting-chang.
(5) Propaganda, Mr. H. K. Tung.
(6) Air Defense, Mr. Chen Li-fu.
(7) Education, Mr. Yu Fei-peng.
(8) Health, Dr. J. Heng Liu.
(9) Secretariat of the General Headquarters, General Chang Chun.

This report has been partially confirmed from official sources, but the relation between the reorganized government and the present Military Affairs Commission, of which Chiang Kai-shek is Chairman, is not yet clearly understood.

13. Activities of Chinese Leaders.

(1) Madame Chiang Kai-shek suffered a broken rib and was severely shaken up when an automobile in which she was riding from Nanking to Shanghai overturned on October 23rd. Because of danger from air attack, the car was travelling at a speed of sixty miles an hour when a tire blew out. Apparently the risks of travel between Shanghai and Nanking are too great for the Generalissimo to attempt the trip.

(2) Yang Hu-cheng, leader with Chang Hsueh-liang in the "Double Twelfth" (12th of January) revolt in Sian, now touring Europe at Central Government expense, recently addressed a peace meeting in London on the subject, "Spain-China, Where Next?", according to a Havas despatch. In view of General Yang's strictly military background, his appearance in the role of a public speaker on international problems is somewhat of a surprise.

(3) Sung Che-yuan, former Chairman of the now defunct Hopei-Chahar Political Council, is reported to have arrived in Nanking from Tsinan on October 22nd and to have gone immediately into a huddle with Chiang Kai-shek. Even if they were known, it would be considered only charitable to draw the veil of silence over the details of the painful scene which must have taken place between him and the Generalissimo.

(4) Feng Yu-hsiang, having made himself thoroughly unpopular on the Tsin-Pu front, is now back in Nanking, from which point of vantage he issued another blast to the press on October 28th expressing the conviction that the United States and Russia must soon come to China's aid, while Germany cannot be expected to take up arms in support of her pact with Japan against the Comintern.

(5) Li Tsung-jen, former bitter opponent of Nanking, declared to Reuter on October 29th than 1,000,000 trained Kwangsi troops were ready to take the field at any moment. Li now commands the Tsin-Pu front.

(6) Chang Hsüeh-liang, "The Forgotten Man," has been located in Lanchow by Domei, where he is said to be acting as a contact officer between China and Soviet Russia.

(7) Mr. Chen Kung-po, former Minister of Industry, and at present director of the People's Training Department of the Central Party Headquarters in Nanking, has been appointed Ambassador Extraordinary on a mission of good-will to England, France, Germany, and Italy, according to a Reuter report.

(8) Mr. Chiang Wei-ju, son of Generalissimo Chiang Kai-shek, now serving in a German regiment as a private, recently won a shooting match in Munich, according to a Havas report from Berlin. This suggests the thought that his services might be used to advantage in the Chinese Army.

(9) Liu Lu-yin, former Chairman of the Central Publicity Department of the Kuomintang, was tried some months ago for the murder of Yang Yung-tai, Chairman of Hupeh, and received a sentence of ten years imprisonment. Liu immediately appealed the decision, but it was confirmed by the Hupeh Provincial High Court on October 30th.

(10) General Chang Tse-chung, former Mayor of Tientsin and Commander of the 38th Division, who recently reported in Nanking for the purpose of receiving chastisement at the hands of Chiang Kai-shek, recently broke down and confessed to Central News that he made stupid mistakes in his defense of Tientsin, but stoutly maintained he had never been lacking in patriotism.

14. Communications.

(1) Railways.

The South Manchuria Railway office in Peking states that the railway now under construction between Peking and Chengte, Jehol, by way of Tungchow and Kupeikow, will soon be completed. All available information on this road will be forwarded when construction is finished.

Train service on the Peining Railway between Peking and Tientsin has greatly improved since the first of November when a new schedule went into effect, providing for three trains a day each way, making the run in from two and one-half to four hours. Conditions on trains are better than for some time past.

Operation of the railway from Peking to Shanhaikuan is now almost entirely in the hands of the S.M.R., even to guarding of the railway property. Chinese staffs, however, including station police, have not yet been entirely supplanted. It is reported from Japan that 500 locomotives are now under construction for use on the Peining and other railways of North China.

Mr. W. H. Steele, for many years Traffic Manager of the Peining Railway, has been relieved of his post and made an adviser to the road. This marks the passing of the last foreigner to hold an important administrative position on the Peining line. Mr. Y. L. Kuan, Superintendent of the General Affairs Department of the railway, has been appointed in Mr. Steele's place.

(2) Postal Administration.

It appears likely that the Postal Administration in North China will soon be divorced from Nanking control. All postal jobs in Chahar and Suiyuan paying over thirty dollars a month are now reported held by Japanese. On October 21st, Mr.

Poletti, Postal Commissioner in Peking, was compelled by threats of force to turn over $50,000 worth of stamps for use in the post offices in these two provinces. No receipt was given for the stamps.

It is generally believed that separation from the control of Nanking will adversely affect the efficiency of the Postal Administration in North China. The ability of the Chinese Posts to carry on in the face of war, flood, pestilence and famine has long been admired, but if present conditions in Manchukuo are any indication, such efficiency cannot be maintained under Japanese control.

(3) Silting up of Taku Bar.

Recent flood waters in the Haiho River have carried such a great amount of silt into the ocean at Taku that the average depth of water on the bar is now only four feet, and ships of more than two hundred tons cannot cross. An improvement in these conditions is not expected before spring, according to reports in shipping circles.

(4) Telephone Communication.

Telephone service between Tientsin and Peking, interrupted since last August, has now been restored, but only points in the Japanese Concession can be called from Peking. Classes for Peking telephone operators in the Japanese language are now being conducted under the supervision of the Japanese adviser to the local telephone administration. Even at the present time numbers may be called in Japanese. Reuter states that automatic telephone service will soon be established in Peking.

Members of the Italian Embassy state that radio telephone messages from Rome are now received here without difficulty, but that their radio station is now powerful enough to permit conversation both ways.

(5.) Chefoo Mole Not to be Dynamited.

Reports from Chefoo state that plans by the Chinese military authorities to blow up the Chefoo mole and wharf to prevent the possible landing of Japanese troops have been abandoned.

15. Casualties.

Reuter reports that up to October 15th, 2,057 noncombatants had been killed and 2,955 others injured in the International Settlement and French Concession in Shanghai by bombs, shells, and bullets. Only 71 were killed and 216 injured in the 1932 fighting, states the same report. Of the total civilian casualties, 1,742 were killed and 1,873 injured on "Bloody Saturday," August 14th.

Transocean quotes an announcement of the Tokyo War Office to the effect that the losses among the Japanese land forces in China, up to October 24th, were 9,640 killed, of whom 4,467 fell in North China and 5,173 in Shanghai. Figuring the killed as three-fourths of the total casualties, the Japanese loss in killed and wounded would be around 40,000, a total which seems approximately correct. At the same time, the Japanese War Office made the fantastic claim that the Chinese had lost in killed 44,270 in North China, and 61,700 in Shanghai, the total wounded being put at over 425,000. A recent Chinese claim that the Japanese have lost 73,000 in killed and wounded in the Shanghai fighting alone seems only less exaggerated than the Japanese reports of Chinese casualties. The real number of Chinese casualties is very difficult to estimate, but it is believed not to exceed one hundred thousand on all fronts.

16. Portuguese Minister Moves to Shanghai.

Mr. Armando Navarro, the Portuguese Minister to China, left Peking with his family and staff for Shanghai on October 30th. According to a member of the Legation staff, a permanent transfer of the Legation away from Peking is not contemplated at the present time, and all but a small portion of the archives have been left here.

17. Economic—China.

(1) Japanese Plans for Economic Development of North China.

It is evident from press reports that considerable thought is being given in Japanese financial and industrial circles as to the best method of developing the economic resources of North China. It also appears that there is some rivalry between the South Manchuria Railway and the China Development Company (Hsin Chung Company, see our Report No. 9572) for the privilege of taking the leading role in this most important activity. According to the Japan Advertiser of October 26th, Mr. Yosuke Matsuoka, President of the South Manchuria Railway, has already submitted a plan to the Japanese Government under which his company would virtually direct the economic exploitation of North China. Officials of the Hsin Chung Company and certain other industrial leaders are said to oppose the plan of the S.M.R. on the grounds that an independent organization such as the Hsin Chung Company would be better fitted for the task of co-operating with the new regime to be set up in North China.

A hint that foreign capital may be allowed to participate in the development of North China was recently dropped in Tokyo by Mr. Toyotaro Yuki, President of the Bank of Japan, according to the Manchurian Daily News. Mr. Yuki is said to have declared that conditions in North China are very much different from those in Manchukuo, and the importation of foreign capital into the former area might be unavoidable. The economic development of North China, according to Mr. Yuki, will be concentrated on increases of production of raw cotton, salt, coal, and iron. New railways must be built, declared Mr. Yuki, and the S.M.R. might be allowed to direct the building of these, but would have nothing to do with other enterprises.

Although a definite policy for the co-ordinated economic development of North China may not yet have been decided, it is evident that Japan is losing no time in securing control of coal and salt production. The Manchurian Daily News of October 24th reports that in order to keep pace with the great demands of the Japanese chemical industry, a Huapei (North China) Salt Industries Company will be organized as a branch of the Hsin Chung Company with a capital of 5,000,000 Yen to take over the Changlu fields in North China. Production will be 600,000 tons per year for the present, but within ten years the output is to be stepped up to 3,000,000 tons. (Note: In 1936 Japan bought 600,000 tons of salt from the Changlu Salt Administration and has contracted for the delivery of the same amount in 1937.) The Changlu Salt Administration, according to the same source, recently took over the Hopei Bureau of Sulphur and Nitre Production, a preliminary step toward placing all mineral production in North China under unified control.

As far as coal production is concerned, the British and Chinese controlled Kailan Mining Administration, operating mines in the Tongshan area, is of course the most important concern in North China, and the future relations of the Japanese with this organization will be watched with interest. The United Press of October 19th quotes Domei as authority for a statement that the K.M.A. has agreed to sell 4,500,000 tons of coal annually to the Hsin Chung Company. In normal times almost all of the Kailan output is sold in Shanghai, but this market has been practically closed since the outbreak of hostilities in that area.

Domei states that Japan has now secured complete control of the Tsing Ching coal mines on the Chengtai (Shihchiachwang-Taiyuan) Railway. Before the World War these mines, working a field said to contain 220,000,000 tons of excellent bituminous coal, were the property of a German company. The Treaty of Versailles required 75% of the shares of the company to be ceded to the Government of Hopei Province. The Japanese, according to Domei, acquired the German shares for 1,250,000 Yen.

Japanese plans for the economic development of North China have revived reports of re-opening of the Lungyen iron mines near Kalgan. So much talk has been heard in the past about developing these mines with no tangible results obtained, that this office will not further report on this subject till something definite has been accomplished.

(2) Money and Banking.

Transocean publishes a Shanghai report of October 27th to the effect that a leading Chinese daily has urged the adoption by the Central Government of measures to stop the flight of capital to Hongkong. The amount of capital thus leaving China is said to have amounted to Mex.$389,000,000 during August and September alone.

Banking conditions in Peking and Tientsin remain difficult due principally to an acute shortage of paper money, poor communications, and high insurance rates on the transfer of banknotes between the two cities. Withdrawals of deposits from Chinese banks are still restricted. The shortage of paper money in North China has given rise to reports that private banks in Peking and Tientsin will soon issue their own notes to relieve the situation. Notes of the Bank of Hopei are now generally accepted at par in the Peking-Tientsin area. Circulation of these notes in parts of China under the control of Nanking has been prohibited by governmental decree. Japanese yen and notes of the Manchukuo State Bank are circulated locally at a discount. The Bank of Korea has recently opened branches in Paoting and Shihchiachwang.

The Brigade Intelligence Officer of the Marines in Shanghai reports that the head offices and all records of the four Chinese Government banks (Bank of China, Central Bank of China, Bank of Communications, and Farmers Bank) were removed from Shanghai to Hankow beginning October 4th.

(3) War Losses.

"Finance and Commerce," a Shanghai publication, states that exports from that city in August were Mex.$23,700,000, or less than one-half of that of July, but that July was an exceptional month as the average exports for the first half of 1937 was Mex.$41,500,000 as compared with Mex.$28,900,000 for the similar period of 1936, and Mex.$21,000,000 for the first six months of 1935. As Shanghai exports are believed to have amounted to $30,000,000 for September, which is three per cent over the figures for 1936 and thirty per cent higher than for 1935, the impression might be given that Shanghai can carry on, war or no war. The figures are deceiving, however, as most of the $30,000,000 came from stock already in godowns when the war broke out, and when these stocks are gone, exports will take a big drop.

The exact amount of imports for September is not known, but it is estimated that they could not be more than one-tenth of normal, which would be around five or six million dollars. Consequently if conditions in Shanghai do not improve and exports fall to the level of imports, as they may be expected to do, Shanghai will have a monthly trade of around Mex.$10,000,000 per month as against a monthly average of $101,000,000 for the first six months of 1937.

The China Press, Shanghai, recently estimated the property damage alone in Shanghai since the outbreak of hostilities on August 13th at more than Mex.$3,000,000,000. This takes no account of business losses due to disruption of trade conditions and the wage loss to around ninety per cent of the industrial workers of the port who have been thrown out of employment. The loss in the 1932 fighting has been conservatively estimated at about a billion dollars, so that the damage this year will be over three times as great. The figures for the 1937 losses do not take into account the great fire in Chapei at the time of the Chinese withdrawal from that district. This holocaust has been described as only less destructive than the great fire during the Tokyo earthquake of 1923 and is reported to have reduced most of Chapei to ashes, causing a property damage alone of over $200,000,000.

18. Economic—Japan.

(1) Japan's Ability to Finance War.

In a speech delivered in Osaka on October 20th, reported by Transocean, Dr. Otah, Vice-Minister of Finance, stated that it is conceivable that Japan with a yearly income amounting to 11,200,000,000 yen would be able to incur an internal war debt of forty billion yen. Comparing Japan with Great Britain, Mr. Otah said that the latter country, with a yearly income of two billion pounds at the time of the Great War, spent seven billion two hundred million pounds on the war. Dr. Otah stated that Japan could stand a debt to the amount mentioned in spite of a present indebtedness of ten billion yen. He concluded his remarks with the statement that Japan could expect no financial assistance from outside.

(2) Shanghai Victory Raises Yen Rate.

The Tientsin North China Daily Star reports that the yen rate in Tientsin rose from Mex.$92.20 to Mex.$97.70 per hundred yen after the news of the Japanese victory in Shanghai. Previous reports of Japanese successes in North China had effected the yen rate very little. Chinese currency has declined somewhat in comparison with the U.S. dollar since the Chinese retreat from Shanghai, but not to any great extent.

19. Conditions in Manchukuo.

(1) Extraterritoriality for Japanese Abolished in Manchukuo.

The Japanese-Manchukuo treaty abolishing Japanese extraterritoriality in Manchuria was signed in Hsinking on November 4th. Press reports state that the signing of this treaty will lead to the abolition of extraterritoriality for all other nations now enjoying such rights in Manchuria; if not by consent of the powers concerned, then by unilateral abrogation.

Further reports state that General Chang Ching-hui, Prime Minister of Manchukuo, will leave Hsinking for Tokyo on November 9th to express gratitude for the relinquishment by Japan of her extraterritorial rights.

(2) Revised Exchange Law.

A revised exchange control law, described as an exceedingly efficient means of harassing foreign business men in Manchuria, was promulgated on October 8th by the Manchukuo Government. According to the Tientsin North China Star, the law requires application for import bills from the Manchukuo Government before any cargo is allowed to enter the territory, and the same source states that details concerning the quantity and specific categories of commodities which may be imported into the country are still not available.

As far as can be determined, the importation of such luxuries as jewelry, perfumes, cosmetics, cameras, liquors, cigars, cigarettes, and high class motor-cars will not be approved as a rule; while wheat, flour, sugar, paper, tea, and many other articles which are produced in Manchukuo and for which substitutes can be obtained in Japan will be strictly restricted. It is also reported that government permission will not be granted for the acquisition of foreign exchange for the importation of such necessities as raw cotton and woll in excess of the domestic demand. Government licenses are required for the exportation and importation of all securities save those to be exported to or imported from Japan. The law also calls for a stronger control of withdrawal of capital and profits and other money remittances to foreign countries.

Effect of the new exchange law has been felt recently in Tientsin where bristle dealers have been unable to secure government permits to release for shipment to Tientsin quantities of goods in Manchukuo already bought and paid for.

(3) Unrest in Manchuria.

Reuter reports that unrest in Manchuria since the outbreak of hostilities in China has become acute, particularly in the north, necessitating an increase of more than 100,000 men in the Kwantung Army during the past two months. Many districts are said to be completely out of control, jeopardizing lives and property of Japanese. All of which is a base calumny invented by a foreign news agency, according to the spokesman of the Japanese Army in Shanghai quoted in the North China Daily News of October 15th. The spokesman admitted the existence of a certain number of bandits in Manchuria, but pointed out that Great Britain had been contending with bandits in northwest India for years.

Japanese settlers in Manchuria are much better off than they were at home, according to Mr. Horiuchi, newly appointed publicity director of the Manchukuo General Affairs Board, as quoted in the Manchurian Daily News recently. Mr. Horiuchi told of one old Japanese who said he was actually eating rice in Manchuria, instead of barley as he had been compelled to do in Japan.

(4) Manchurian Troops in China.

Transocean reported in a recent Shanghai despatch that a reliable foreign observer has seen and talked with Manchurian soldiers serving with the Japanese in that area. An unknown number of Manchukuo troops are now stationed at the Yellow Temple, north of Peking. Soldiers from this garrison are occasionally seen on the streets in this city. Their uniform is almost exactly the same as that worn by the Japanese except for a difference in the star affixed to the front of the cap.

20. Foreign Aid to China.

(1) Supply of Munitions and Planes.

Recent reports that large amounts of arms and ammunition are being shipped into China from Soviet Russia through Lanchow, Kansu, and Sian, Shensi, are not confirmed by an American newspaper man who recently visited the latter city and saw no evidences of any unusual truck activity over the Sian-Lanchow motor road.

A foreign source in Shanghai reports that thirty-six Gloucester Gladiator pursuit planes, capable of developing 255 m.p.h., arrived recently in Hongkong from England, accompanied by English mechanics to assemble them for delivery to the Chinese Government. According to the same source, sixty of these planes had been ordered in England before the war broke out. Domei states that nine heavy bombers supplied by the Soviet Government arrived in Hankow on October 27th, and that a second shipment is on the way. United Press reports that nineteen Bellanca mail planes, easily convertible into bombers, recently arrived in Los Angeles from Baltimore and will be shipped to Indo-China on a Dutch vessel for delivery to China.

Japanese press reports state that between two hundred and three hundred trucks are now running nightly between Hongkong and Canton, engaged in transporting munitions of war to the latter port, from whence they are shipped, mostly by the Canton-Hankow Railway, to the Yangtze River ports.

United Press states that the Ventura Boat Company of Atlantic City, N.J., has accepted an order from the Chinese Government for twenty speed boats, capable of making sixty to seventy miles an hour, twenty feet long by seven and one-half feet beam.

The Japanese Navy announced on November 2nd that the naval blockade of the China coast is now complete and the importation by China of arms and ammunition in foreign vessels has been effectively checked. This announcement is believed to be mostly big talk, if reports from Japanese sources of huge quantities of munitions pouring into China through Hongkong and French Indo-China are to be believed.

(2) Foreign Pilots for China.

According to Domei, twenty-four American pilots recently arrived in Canton from Hongkong for service with the Chinese air force, and twenty-five more are on the way. The report also claimed that fifty Russian pilots were serving in China. A recent report from an official British source in Nanking states that 100 Russian planes, flown by Russian pilots who have given up their Soviet citizenship, would soon arrive in China for service in the air defense of the Canton-Hankow Railway, the important artery of communication which has been recently repeatedly bombed by Japanese planes.

21. Government of North China.

No developments of any particular importance toward the establishment of a new government for North China have occurred since our last report, and such civil powers as remain in Chinese hands are still principally administered by local Peace Maintenance Commissions, which bodies are of course completely subservient to the Japanese Army. Lieutenant-General Kita, Chief of the Japanese Special Military Mission in North China, who is generally credited with being in immediate charge of forming the new government for North China, has established his headquarters in Peking, from whence he controls missions in Peking, Tientsin, Tongshan, Kalgan, Paoting, Tsingtao, and Tsinan.

General Kita interviewed foreign press correspondents on October 27th, but gate out nothing on the subject of a new government for North China except a statement that whatever form this government might take, when established it would be based upon the wishes of the people of North China and, he hoped, would ultimately coincide with the wishes of the entire Chinese people.

The Hopei Administrative Council, a body which in some quarters is believed will eventually form the nucleus of the new government in this area, was inaugurated on November 4th, with headquarters in the Chung Nan Hai Park. The Council consists of seven members, all natives of Hopei Province, nominated by the Peking Peace Maintenance Commission. Just what are the powers of this Council is not known at this time, nor can any definite prediction be made as to what its future development as a governing body will be.

Pending a possible ascendancy of this newly created Hopei Administrative Council, the Peace Preservation Commissions of Peking and Tientsin, which have been acting more or less jointly since their inception, remain the strongest organ of governmental administration in Hopei Province, always excepting the Japanese Army.

22. Missions to China.

Domei reports that two special delegations from the Tokyo Diet will shortly visit North China and Shanghai for the purpose of comforting the Japanese troops in these areas.

Another Domei despatch states that the Osaka Chamber of Commerce and Industry has decided to send a mission to North China to investigate economic possibilities.

A group composed of fifteen members of the Manchukuo Concordia Society arrived in Peking the latter part of October and made trips to Paoting, Kalgan, and Tatung, "comforting" Japanese and Manchukuo soldiers. Members of the group were presented on November first to representatives of Peking educators, such as have not been hounded out of town by the Japanese Army. The group left for Manchukuo on November 4th.

Lieutenant-Colonel Shitei, aide-de-camp to the Son of Heaven, His Imperial Majesty, the Emperor of Japan, arrived in Peking on October 27th, conveying messages of cheer and comfort from the Emperor and Empress to all ranks of the Japanese Army. During his stay in Peking, as many as possible of the common herd, including foreigners, were kept off the streets through which his automobile had to pass. The extraordinary precautions to protect the Imperial Emissary gave rise to rumors that Pu Yi had returned to Peking to resume his seat, vacant these twenty-five years and more, on the Dragon Throne in the Imperial City.

Domei states that a party of doctors, pharmacists, and nurses, recruited from among the Japanese recently evacuated from Hankow, Tsinan, and Tsingtao, arrived in Peking on October 21st to begin free medical work among sick and wounded Chinese and Japanese. It is reported that the group will later extend its activities to Kalgan, Tatung, and Paoting. The mission is stated to be one of three supported by a philanthropic society in Japan for work among poor Chinese and Japanese.

A party of Military Attaches from Tokyo, travelling as guests of the Japanese Government, arrived in Tientsin on October 15th. Included in the personnel of the party were Lieut. Colonel W. C. Crane, F.A., Military Attache to the American Embassy in Tokyo; Lieut. Colonel Adam Przybylski, representing Poland; Major Viroyodha, Siam; Major Juan Mendoza, Peru; and Lieutenant P. Pender-Cudlip, Great Britain. The party visited Tientsin, Peking, Techow, Chengting, Lukowchiao, Tungchow, Nankow, and Kalgan, leaving for Japan on November first.

23. Mongolia.

(1) New Inner Mongolian Autonomous State Formed.

A "Federated Autonomous Government of Mongolia" was formally organized in Kuei-Sui (Kweihua and Suiyuan cities) on October 29th. Prince Yun, 72 year old President of the Ulanchab League, was elected Chairman, and Prince Teh (Te Wang), Chief of the West Sunnit Banner of the Silingol League, was chosen Vice-Chairman. Domei gives the articles of the Organic Act setting up the new government, and these will be made the subject of a separate report.

According to press reports, the new government proposes to exercise actual authority for the present over the Ulanchab, Silingol, Payentala, and Ikuchao Banners, as well as over the cities of Kuei-Sui and Paot'ou. This would include practically all of Suiyuan and northern Chahar. The government also claims, however, sovereignty "over the territory originally possessed by Mongolia," which would imply the hope or intention of ultimately bringing Outer Mongolia, a virtual Soviet protectorate, and the as yet unconquered Chinese province of Ninghsia under its sway.

The seat of government of the new state has been established at Kuei-Sui, the name of which has been changed to Ho Ho, said to be the old Mongol name for the place.

Because of the bad treatment which the Mongols have received in recent years from the Chinese Government in general and from Fu Tso-yi, Chairman of Suiyuan, and his backer, Yen Hsi-shan, Pacification Commissioner of Shansi and Suiyuan, in particular, few well wishers of the Mongol race would feel anything but pleasure in the establishment of this new autonomous state were it not for the fact that the certainty of its domination by the Japanese holds out little hope for any great improvement in the lot of the Mongols. The present situation of the Manchurian Mongols certainly does not indicate that the Chahar and Suiyuan Mongols will find the Japanese much better masters than the Chinese have proved to be.

A report covering the relations of Inner Mongolia with China since July 17, 1936, the date of our last report (No. 9442) on the subject, will be forwarded in the near future.

(2) Position of the Soviet vis-a-vis Outer Mongolia.

As stated in Paragraph 10, (1), above, it appears that Russia may be considering a change in the status of her relations with Outer Mongolia. At the present time there are apparently two courses open to Moscow, each probably with its own protagonists among the group capable of influencing policy. The first is to cancel the independence of Outer Mongolia and "return the territory" to Nanking. This, it may be assumed, would enable Nanking to order the Mongol Army to participate in the present struggle, guarantee Moscow against any defection on the part of Nanking from the "anti-Japanese front," and at the same time rescue the Soviet from the invidious position it would occupy in the event of fighting between the Inner Mongols, supported by Japan, and the Outer Mongols, backed by the Soviet.

The second policy is the maintenance of the status quo, the preservation of the present position of Outer Mongolia, and the avoidance of direct participation in the struggle. This might be the wiser course in that there is a possibility that an alteration in the existing status of Urga would involve difficulties with the Outer Mongol Government, which might prefer an understanding with the Inner Mongols under Teh Wang to a return to Nanking.

Mr. Owen Lattimore, the eminent traveller and authority on Mongolia, now in Peking, has recently suggested that the question of the return of outer Mongolia to the authority of China is not one to be decided by the Soviet Government, but by the Outer Mongols and the Chinese Government, and he has intimated the belief that Soviet Russia would not stand in the way of Outer Mongolia should the latter decide to unite with China in order to resist Japan.

24. Occupation of Islands by Japanese.

Chinese quarters claim, according to Transocean's Shanghai service, that the Japanese have occupied several islands of the Chusan Group in Hangchow Bay for use as an air base. Reuter reports the occupation of Quemoy Island, guarding the entrance to Amoy Harbor, by the Japanese Navy after a bombardment from war vessels. Transocean is also the source of a report from Shanghai of the 20th of October to the effect that military circles in Canton are expecting the Japanese to attempt the seizure of Hainan Island, lying in the Gulf of Tongking just off the coast of Kwangtung. Japan has been casting covetous eyes on Hainan for some time, and possibly has only kept her hands off the Island because of apprehension as to repercussions in French and British military and naval circles.

25. Local Conditions in Peking.

(1) Population.

The Peking police have announced that the population of the city on September 30th was 1,524,182, of which 923,466 were males and 600,716 were females.

(2) Boy Scouts Abolished.

Local Chinese authorities have abolished Boy Scout training in primary and middle schools. This training was formerly compulsory under the regulations of the Ministry of Education of the Chinese Government. According to reports, Chinese boxing will be substituted for the Boy Scout work. Fear on the part of the Japanese that the Boy Scouts are really a military organization is given as the real reason for the promulgation of the ban.

(3) Cholera Campaign Wound Up.

Local medical authorities state that up to October 25th over 400,000 persons in Peking had been inoculated during the course of the anti-cholera campaign. The Japanese apparently have an acute horror of the disease, which accounts for the zeal, believed in many quarters to have been largely misdirected, with which the campaign was conducted. Now that really cold weather is close at hand, it is hoped that little more will be heard of anti-cholera measures until next year.

(4) Round-the-City Road Repaired.

A proclamation was issued on November 2nd by the Peking Peace Maintenance Commission that the round-the-city road, now in very bad shape, would be repaired by the municipal authorities, assisted by the Japanese Army. The proclamation states that in connection with the repair of the road it will be necessary to seize some private property, but as the purpose of the work is to facilitate bandit control in areas adjacent to Peking, hence for the common defense and general welfare, no compensation can be given for such confiscation.

26. Shanghai.

(1) Naval Commanders call Attention to Danger to Shanghai Foreign Settlement.

On November second, a conference was held in Shanghai between General Harada, the Japanese Military Attache, Consul General Okazaki, representing General Matsui, and the senior American, British, French, Italian, and Netherlands naval officers present in the area. The naval officers expressed regret that they were unable to confer directly with General Matsui, and informed the Japanese plainly and emphatically that continued killing and wounding of neutral soldiers and non-combatants by the firing of shells and dropping of bombs in the International Settlement and French Concession was creating a very grave situation and it was essential that effective steps be taken to prevent recurrence of such incidents in future.

The Japanese called attention to the fact that the Chinese were entrenched in the immediate vicinity of the British and French troops west of the Settlement, and in order to dislodge these it would be necessary to shell and bomb near the boundary; a situation which would inevitably cause occasional projectiles to fall inside the Settlement. The Japanese stated, however, that they were trying to penetrate the Chinese lines at some distance from the boundary, in other words along the south bank of Soochow Creek, in order to force a Chinese retirement. They further said that they fully realized the necessity of avoiding further incidents and that every effort would be made to do so. The naval officers were informed that General Matsui would be informed of their views at once, and it seemed that the Japanese were impressed by the conference.

The conference of the naval officers with the Japanese authorities is believed to have considerably influenced the latter in their subsequent decision to permit a neutralization of a portion of the Nanshih area for the use of refugees,

(2) Neutralization of Area for Refugee Concentration.

At the instigation of a French priest, Father Jacquinot, acting in cooperation with the French and Italian Ambassadors, the Japanese military authorities in Shanghai have agreed to the neutralization of a part of Nanshih (also known as "Nantao") for the establishment of a camp for the use of Chinese refugees in the area, which are said to number around 300,000. All Chinese troops are to be withdrawn, and the area is to be protected by an international patrol and administered by an international committee which will guarantee that none of the refugees carries arms. Nanshih is located between the Whangpoo and the southeastern borders of the French Concession and the Chinese city.

(3) Conditions in Hongkew and Chapei.

With the withdrawal of the Chinese forces from Chapei, the most dangerous zone in Shanghai is now the area on the western boundary of the Settlement. Consequently conditions in Hongkew and Chapei are beginning to return to normal. Recent reports state that Japanese shops in the former district are reopening daily, and that over fifteen hundred Japanese citizens have returned. In Chapei, thirty industrial plants, including cotton mills, silk mills, and cigarette factories, have resumed operations. Recovery in this area, however, will of necessity be very slow, as the greater part of it has been reduced to ashes.

Joseph W. Stilwell

DDB

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Colonel, Infantry
Military Attache

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COMMENTS ON CURRENT EVENTS

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4. Prospects for Peace
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13. Mongolia
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15. Communications
16. Fate of Missionaries
17. Chinese Leaders
18. Diplomats

1. Removal of Seat of Chinese Government from Nanking.

On November 20th, the Central Government announced the removal of the seat of government from Nanking to Chungking. The announcement stated that in its new location the National Government would find itself in a more advantageous position to direct national affairs and put up a prolonged resistance to foreign aggression, and closed with the pronouncement that China, with the full sympathy of foreign nations and the solid support of its people, would ultimately attain its object of maintaining its national existence and independence.

The news of the move came as no surprise, as reports of the impending transfer of the seat of government had been circulated in official circles some days prior to the official announcement. The foreign diplomatic bodies in Nanking were accordingly prepared to move to Hankow where the Foreign Office is to be established. The American Ambassador, Mr. Nelson Trusler Johnson, and his staff left for Hankow on board the U.S.S. "Luzon" at 11:00 a.m. on November 23rd. They arrived in Hankow on November 27th, having stopped at Wuhu and Kiukiang to pick up Americans who wished to leave those ports. The U.S.S. "Panay" remains in Nanking to protect forty-three Americans still there. Mr. George Atcheson and Mr. Hall Paxton, Second Secretaries of Embassy; Mr. Emile Gassie, Clerk; Captain Frank N. Roberts, Acting Assistant Military

Attache; and Captain James M. McHugh, Assistant Naval Attache, were left in Nanking to administer the American Embassy office and look out for interests of Americans remaining in the city. The British, German, French, Belgian, and Russian Embassies have also departed for Hankow. The British left a Consul and the Military Attache in Nanking.

Not all branches of the Chinese Government are to be transferred to Chungking. According to the latest reports, the Foreign Office, Finance and Health Ministries, and Postal Directorate are to go to Hankow; the Ministry of Communications to Changsha; Military Administration to Wuchang; and the five Yuan to Chungking. These moves are believed to have been practically completed.

Official announcement was made at Nanking on November 18th that Chiang Kai-shek had resigned as President of the Executive Yuan in order to devote his full attention to military duties, to be succeeded by Dr. H. H. Kung, Vice-President of the Executive Yuan. Dr. Wang Chung-hui replaces Dr. Kung. Both Dr. Kung and Dr. Wang retain their posts as Minister of Finance and Minister of Foreign Affairs, respectively.

It is too early at the present time to attempt a prediction as to what effect the transfer of the seat of government from Nanking to Chungking and other points will have upon the future course of events in China. The Japanese press of course hails the news as indicating the virtual collapse of the Nanking government and its reduction to the level of a mere local administration. Japanese sources state, how truly is not known at present, that Chinese banking circles in Shanghai are greatly perturbed over the transfer and fear that it will intensify the difficulties of carrying out the war time financial program of the Chinese Government. To an impartial observer of the situation the thought occurs that if Chiang Kai-shek is really relinquishing some measure of his control of civil affairs, it may increase the influence of Dr. H. H. Kung and General Ho Ying-chin, the Minister of War. It is the general impression that Japan would find Dr. Kung and General Ho less difficult to deal with than the Generalissimo in negotiating a peace.

News of the removal of the government precipitated a virtual panic in Nanking and a general evacuation of the civilian population began, every available means of travel being used. The exodus still continues and the population of Nanking will probably eventually be reduced to a fraction of its size in normal times.

On November 22nd an international committee, representing the foreign residents of the city, brought forward a proposal to make Nanking a neutral zone. The proposal was forwarded to the Japanese military authorities in Shanghai by the American Ambassador. No report has been received as to what action, if any, will be taken on this request by the Japanese. The Tokyo Nichi Nichi came out with a statement on the 25th of November that the creation of a neutral zone in Nanking would hinder Japanese military operations in that area, but until Japanese officialdom is heard from the matter hangs in abeyance. On November 27th, the Japanese Army spokesman in Shanghai asked foreign newspaper correspondents to make efforts to save Nanking from destruction by urging the Chinese to receive the Japanese Army into the city "with open arms." It seems a little bit too much to ask for so fervent a reception, but it is safe to predict that if and when Japanese troops enter the former capital they will at least be welcomed with a general display of the rising sun banner.

It has been officially announced that Chiang Kai-shek will stay in Nanking to direct the defense of the city, for which purpose some of the best of the Chinese forces are being held in reserve. The general impression here, however, is that the government now having been moved away, it is unlikely that a very determined effort will be made to hold Nanking. If Chiang Kai-shek is compelled to withdraw, he will be in an unenviable situation unless he can take a large force of trusted troops with him. It seems unlikely that he would risk his safety in Chungking without adequate protection, after the bitter lesson he learned in Sian last winter.

If the worst comes to the worst, he and Madame Chiang can climb into a plane and seek safety in a non-stop flight to Hongkong. Such a move on the part of the Generalissimo and his lady would not come as a great shock to this office.

2. Shanghai.

(1) Japanese Assume Partial Control of the Settlement.

On November 20th, the Japanese military authorities in Shanghai presented demands to the authorities of the International Settlement and the French Concession designed to control the activities of Chinese residing in these two areas. Domei lists these demands as follows:

(a) Suppression of all anti-Japanese propaganda.
(b) Disbanding of all anti-Japanese organizations, including the Kuomintang.
(c) Prohibition of Chinese censorship in all forms.
(d) Refusal of telegraphic privileges to Chinese.
(e) Dissolution of all national and municipal Chinese administrative institutions.
(f) Supervision of the conduct of all former Chinese political leaders.

Reports from London and Washington indicate that the reaction of the British and American governments to these demands is that they should be the subject of direct negotiations between the Settlement authorities and the Japanese military in Shanghai. It is to be assumed that should questions arise beyond the power of local officials to settle, they will be taken up by the home governments of the nations concerned.

The presentation of the demands concerning the Settlement was not unexpected, as since the evacuation of Shanghai and environs by Chinese troops the Japanese military authorities have made frequent complaints that the authorities of the Settlement were not maintaining a neutral attitude and that the Settlement was being used as a base for anti-Japanese and communistic activities. The general reaction of the Settlement authorities has thus far been to comply with the Japanese demands, and as yet there has been no indication of any intention on the part of the United States and British governments to attempt a curb on Japanese interference in Settlement affairs, other than a statement by Mr. Anthony Eden, the British Foreign Secretary, in the House of Commons on November 23rd to the effect that the status of the International Settlement is governed by regulations which cannot be changed without the consent of the Chinese Government.

Visible evidence of the desire of Settlement authorities to meet Japanese demands has been the suppression of the Central News Agency, a Chinese government organ, the closing down of several violently anti-Japanese newspapers, and the abolishing of all Chinese censorship agencies in the Settlement. On November 27th the Japanese Embassy spokesman in Shanghai stated that the Japanese intended to take over all postal, telegraphic, and wireless offices in the city, but up until noon of that day no premises of these organs had been occupied.

Japan bases its recent actions in the International Settlement on the claim that China never relinquished sovereignty over this area; in other words, the Settlement is still part of China and therefore the Japanese, by right of conquest, are justified in taking steps to look out for their interests therein. Japan's action concerning the Settlement has raised a number of legal questions, one of which is whether or not Germany would permit Japan to exercise judicial authority over her nationals, in the event that Japan claims judicial rights in the Settlement. German nationals have no extraterritorial privileges in China and are therefore concerned in any question affecting the administration of justice in Shanghai.

According to a statement by the official Japanese spokesman in Shanghai on November 26th, relations between the Japanese and the Settlement authorities are very satisfactory at present. General Matsui, commanding the Japanese troops in the Shanghai area, also recently stated that he views the present status of affairs calmly, but that he is prepared to take the necessary steps to protect Japan's interests at any time should the necessity for such action arise.

(2) General Conditions in Shanghai.

Conditions in Shanghai continue to return gradually to normal but are far from that state as yet. The British Consul General recently announced that subjects of his government might now return to Shanghai, except those residing in certain areas, such as Hungjao, where danger still exists. The refugee situation is still very bad, and hundreds of thousands of these unfortunates still crowd the Settlement, the French Concession, and the Jacquinot Refugee Zone in Nantao. Another refugee zone in Nantao has recently been opened by the Japanese Army. The problem of feeding and housing the refugees is a very serious one, and according to Japanese reports Shanghai is threatened with a food shortage. It is anticipated, however, that with the gradual return of normal conditions and the restoration of communication services, this danger may be averted. General Matsui and Admiral Hasegawa, commanding respectively the Japanese Army and Navy forces in Shanghai, have each given ten thousand dollars to the Jacquinot Refugee Zone.

3. Japanese Taking Control of Chinese Maritime Customs.

On November 20th the Japanese military authorities in Shanghai seized a fleet of forty-three vessels, normally used in smuggling prevention by the Maritime Customs. A dredge, one of the largest in the world, the property of the Whangpoo Conservancy Board, was also taken over. The customs vessels have since been put to use conveying Japanese troops inland. Chinese crews of the vessels were detained, but foreigners were allowed to go ashore.

It was at first supposed that the vessels would be held only temporarily, but on November 23rd the Japanese announced that they considered the Maritime Customs as an organ of the Chinese Government which had lost any international character it may ever have possessed, and they were therefore entitled to seize it by right of conquest, the same as they could take anything else belonging to the Chinese in conquered territory. It was stated at the same time that the Chinese Postal Administration was considered in the same category as the Customs as far as liability to seizure was concerned.

Still further tightening the Japanese grip on the Customs, on November 24th Mr. Yusuke Akatani was formally appointed as Administrative Commissioner of the Shanghai Customs. This is one of the two senior posts under the Shanghai Commissioner of Customs, the other being the Appraising Commissioner. Mr. Akatani is the first Japanese to hold the position in Shanghai to which he was appointed. On the same date, Mr. Keiichi Katoh was appointed Director of the Revenue Department of the Shanghai Customs. Japanese sources state that the appointments were made to meet the situation created by the capture of Shanghai by Japanese troops, which may be taken as a pleasing way of saying that these two gentlemen will be charged with the responsibility of seeing that Japan gets what is coming to her out of the Shanghai customs revenue.

As the Customs revenue is pledged as security for the major part of China's foreign loans, Western countries, particularly Great Britain, may well view with alarm this virtual seizure of the most important source of Customs income. What action the countries affected will take remains to be seen. The United States, fortunately, is not nearly so large a creditor of China as Great Britain, hence her interests are not so much affected.

It is anticipated that with the assumption of Japanese control over the Shanghai Customs, the same practice will be followed in that port as now prevails in North China; in other words, the Customs revenue, such as is not required for the service of loans made by Japan to China, will be deposited in a Japanese bank, and remittances to cover the service of other loans will be made at the pleasure of the Japanese.

4. Prospects for Peace.

Prospects for an early peace do not seem very bright at this writing, as there have been no recent indications that either China or Japan is assuming a conciliatory attitude. The Nine Power Conference, recently convened at Brussels, has adjourned, openly admitting inability to find any means of ending the present conflict. There is always the chance, however, that an unexpected turn of events may bring a close to the present undeclared war. Editorial comment in the foreign press of China often stresses the point that inasmuch as the war is undeclared, an undeclared peace may always be hoped for.

What may have been a sincere effort on the part of Herr Adolph Hitler, the German Chancellor, to mediate in the present hostilities was reported on November 11th in a Reuter despatch from London, which stated that Der Führer, with the cordial approval of Italy, was exerting pressure on both Chiang Kai-shek and Tokyo to accept his good offices in bringing about a peace. According to the despatch, Herr Hitler had warned China not to hope for victory or to expect help from the Brussels Conference; while prolonging of the war could mean only the rise of the Communists, the fall of Chiang Kai-shek, and the supremacy of Russia in China. At the same time he had pointed out to Japan, the despatch further stated, that a long war would not only exhaust her national strength but would drive China into the arms of Russia.

No tangible results of this offer, if it was actually made, have been observed. Only a few days ago, on November 22nd, Chiang Kai-shek reiterated to the foreign press the statement made by him on a number of other occasions in the recent past that China cannot make peace except within the framework of the Nine Power Treaty. According to the Acting Assistant Military Attache in Nanking, Captain Roberts, this attitude is reflected by all classes of Chinese officials with whom he has come in contact, and Captain Roberts states that the calmness with which these officials declare that China will resist to the last man and to the last inch of territory is decidedly impressive.

Transocean, the German news agency, states in a Brussels despatch of the 24th that before the adjournment of the Nine Power Conference, the British and American delegations sounded out China on the proposition of allowing her five northern provinces to form an independent state, provided Japan would guarantee to refrain from penetrating this territory and making it into a second Manchukuo. The despatch states that the Chinese delegation turned down the proposal as totally unacceptable.

What is hailed by the Japanese press as an important declaration on the subject of a possible peace was made by the Japanese Premier, Prince Fumimaro Konoye, on November 27th. According to Domei, the Prince stated that how far Japan will push her military operations in China depends solely upon the attitude of the Chinese Central Government, and that whenever this government abandons its hitherto consistent anti-Japanese policy, Japan will be ready to talk terms. On no conditions, said the Premier, would Japan consent to the mediation of a third party in the present conflict.

The above statements imply nothing new in Japan's attitude toward making peace, and are quoted solely on account of the authoritative nature of the source. Another statement on peace which deserves mention was made in Shanghai on November 27th to the Japanese press by Mr. Shigeru Kawagoe, the Japanese Ambassador to China. Mr. Kawagoe stated that he thought the time still far distant when China, brought to her knees, would sue for peace, and that Japan must make up her mind to carry on a long campaign in this country.

5. North China Situation.

(1) New Government for North China.

No material developments are visible in any plans which the Japanese may have to set up a new regime in North China. The areas which have been cleared of Chinese troops continue to be governed by local peace maintenance commissions which function under the domination of the Japanese Army. Nothing of interest has been heard concerning the recently inaugurated Hopei Administrative Council, and the combined Peking-Tientsin Peace Administrative Commissions, which hold frequent joint meetings, are still the most powerful civil organs in North China.

Declarations are brought forward from time to time by various organs and societies in North China which are alleged to show a "burning desire," as the Japanese-dominated Peking Chronicle puts it, on the part of the people for a new regime under Japanese protection. The declarations are so obviously inspired by the Japanese that no quotation of them is considered necessary.

A statement, however, which must be considered as most significant on the subject of a new regime for North China was made in Tokyo on November 27th by the Japanese Premier, Prince Fumimaru Konoye, who is quoted by the Tokyo Asahi Shimbun as follows:

> "Judging from present indications it is very possible that while prolonged resistance lasts, independent regimes will crop up in North China and elsewhere. If these serve to facilitate a readjustment of Sino-Japanese relations, we will consider cooperating further in strengthening them. If an independent regime gains strength and controls more than half of China, it will be advisable for Japan to consider it as the Central Government of China. I have received a report that a new regime will be formed about January. We have received a request to send advisers on political and economic problems and the government is now choosing the proper personnel."

In view of the above, definite developments in the way of establishing a new government in North China are expected in the near future, and some significance is attached to a report, circulated in Chinese circles, that Wu Pei-fu may emerge from retirement to head a new government.

(2) Shantung.

The stalemate in Shantung still continues. Japanese troops are on the north bank of the Yellow River and why they do not cross is a mystery. The only logical explanation seems to be that the Japanese know that Han Fu-ch'u, Chairman of Shantung, will eventually turn over his province, and they are apparently willing to strain their patience to the limit in allowing him to take his time. What Han can possibly hope to gain by delaying his surrender to the Japanese is as difficult to understand as the Japanese failure to bring him to book by force. As far as can be determined, Han is finished no matter what he does. If he turns over to the Japanese, they will certainly consider him a person unworthy of any trust and treat him accordingly, while if he sticks by Nanking he can certainly not hope to hold his province against the Japanese Army.

Some looting of Japanese property has recently been reported in Tsingtao and other cities inland. If this has been done with Han's consent, tacit or otherwise, it seems the height of bravado for him to permit such action; if it has been carried out against his will, it would seem advisable for him to take steps to prevent any more of it in future.

Prince Konoye, the Japanese Premier, recently referred to the Shantung situation in the following words: "The question concerning Shantung still remains to be settled as far as North China is concerned. I am deeply inclined to think that Tsingtao, in Shantung Province, will become in the future the center of Sino-Japanese cooperation." This statement hints strongly at impending positive action in Shantung.

(3) East Hopei.

The East Hopei Autonomous Government, the capital of which is now located in Tongshan, the coal town on the Peking-Mukden Railway between Tientsin and Shanhaikuan, celebrated its second anniversary on November 25th. A Peking branch of the East Hopei Bank was formally opened on November 11th. According to the local press, over $400,000 in deposits was received on the first business day.

(4) Local Conditions, Peking and Tientsin.

Peking continues peaceful and is probably the best place in China to-day, but this only by comparison with less fortunate cities, as business is very bad, there is much unemployment, and the advent of real cold weather has brought great suffering to the poor. Twenty gruel kitchens, some supported by the Salvation Army, some by the Municipality, are now in operation. The Chinese press states that 902 war refugees are still left in the city.

The police have recently extended censorship of the press to entertainment of all kinds; including plays, movies, and even phonograph records. An announcement was recently published by the police to the effect that "gatherings of all kinds are prohibited," a regulation which if put into effect would have virtually paralyzed the city. It was later stated that the meaning of the announcement was that no new associations of any kind should be formed without police permission. A press report states that the Japanese Military Mission in Peking has ordered question boxes for the use of the local population to be put up in convenient places. Anyone is free to make use of the boxes, so states the item, for purposes of inquiry or suggestion, but all communications must be signed and those who make false accusations will be punished.

The recent fall of Taiyuan was celebrated by a lantern parade, for which participants were secured by compelling students from public schools in the city to take part. It was a sorry spectacle, resembling a funeral procession more than a demonstration of rejoicing. It seemed unfair to compel a conquered people to celebrate a further loss of territory. It must be admitted, however, that on the surface at least, the Japanese and Chinese in this city seem to get along very well together.

Tientsin and Peking are experiencing a shortage of copper coins. In Peking a dollar now changes into around 320 metal coppers, but if one is willing to accept copper notes, the rate of exchange is about 406 to the dollar. The copper shortage in Tientsin has caused the Tramway Company to offer penny candies in the place of coins in making change, and the expedient is said to be working very well.

Chinese residents of the Special Areas and the Chinese City in Tientsin were recently subjected to a thorough search by the police of both their persons and houses. Control of winter banditry was given as the reason for the search, but the real motive is believed to have been to look for evidences of anti-Japanese activity.

Reports from Tientsin state that capital punishment for dealers in drugs, instituted some months ago by the Nanking Government, is about to be abolished, probably because of its association with the Kuomintang. Whatever the motive for the abolishing of the penalty, however, it would seem a good thing to do so, for only Chinese drug dealers of very small caliber were ever executed, while Koreans and Japanese connected with the traffic in a big way went scot free.

The Peking *Chronicle* was sold last month by Mr. W. Sheldon Ridge, the former British owner, to the Japanese. It is now edited by Mr. George Gorman, a Canadian citizen, who ran a paper called *The North China Standard* for the Japanese in Peking in 1927 and 1928. Under Mr. Ridge's management the *Chronicle* was decidedly pro-Chinese. It has now become a mouthpiece of the Japanese Army, although it still carries some Reuter despatches.

Residents of Peking who do not wish to read a Japanese-controlled paper must now rely for news on the British-owned *Peking and Tientsin Times*, or the American-owned *North China Star*, both published in Tientsin.

6. Soviet-Chinese Relations.

It was announced in Moscow on November 23rd that Mr. Luganetz-Orelsky had been appointed Soviet Ambassador to China, succeeding Mr. Dmitry Bogomolov. According to Domei, Mr. Bogomolov may be appointed Ambassador to Mexico.

The news of Mr. Bogomolov's relief comes as a distinct surprise, as recent reports had indicated that Stalin was inclined to favor the former Ambassador's recommendations concerning Soviet policy in the Far East. Nothing is known of Mr. Luganetz-Orelsky's background, but little credence is given to a Japanese report that he is really a high Soviet military official under an assumed name, and that no record can be found of a diplomat named Luganetz-Orelsky.

Nothing has been heard concerning the return to China of General Lepin, who left Nanking for Moscow last month, as also did Mr. Bogomolov. In view of the present purge of Soviet civil and military officialdom, it is natural to wonder if any misfortune has befallen Mr. Bogomolov and General Lepin, but thus far no news has been received to suggest that they may have been "liquidated."

(2) Soviet to Recognize Chinese Sovereignty over Mongolia?

According to the United Press, the spokesman of the Chinese Embassy in Paris stated on November 10th that reliable information from European capitals indicated that Russia would probably soon agree to recognize Chinese sovereignty over Outer Mongolia. The spokesman believed that such a step would have important repercussions in the Far Eastern conflict; and might possibly mean that Mongolian armies would assist the Chinese in North China. This statement appears to be a case of the wish being father to the thought, as no further news has been received to indicate a possible change in Russia's relations with China as far as Mongolia is concerned.

7. Soviet Japanese Relations.

(1) Renewal of Fishery Agreement.

Japan is evidently anxious that a formal fishery agreement be completed with the Soviet. It will be recalled that such an agreement was ready for signature, and had in fact been initialled, at the time of the outbreak of the present hostilities in China. Russia subsequently refused to sign the agreement, presumably because of Japan's action in attacking China. Fishery matters concerning the two countries are now regulated by an informal agreement which will expire on December 31st of this year.

According to Japanese reports, the Japanese Ambassador in Moscow, Mr. Mamoru Shigemitsu, has pointed out to the Soviet Government that the signing of a new agreement would tend to minimize the danger of clashes between Japanese and Soviet fishermen. The Japanese press further states that the Soviet Government has agreed to enter into negotiations concerning the agreement.

(2) Japanese Protest Removal of Korean Subjects from Maritime Province.

Domei, under date of November 16th, reports from Tokyo that the Japanese Government has lodged a sharp protest in Moscow against the forcible removal of Koreans from the Maritime Province to Turkestan. The report states that no less than 200,000 Chosenese are being compelled to vacate the Maritime Province, and that this action is considered a violation of present treaty agreements between Japan and Russia.

Another Domei report states that Japanese residents of northern Sagahlien have recently been compelled to evacuate that area after having been intimidated by the Russian secret police.

(3) Soviet Reacts to General Araki's War Talk.

Reuter reports from London that the Soviet Government has delivered a note of protest against the appeal recently made by General Araki, a member of the Japanese Supreme War Council, for war with Russia. The Soviet Government is said to have branded this appeal as unbecoming a person occupying high official position in a supposedly friendly state. The same despatch states that the Red Star, organ of the Soviet General Staff, warns Tokyo that Russia will not tolerate an attack on Outer Mongolia.

(4) British Labor Paper Sounds Alarm of Russo-Japanese War.

The Shanghai correspondent of the London *Daily Herald*, in a despatch to his paper dated November 25th, declares that Soviet authorities are greatly worried by reports that over 500,000 Japanese troops are now concentrated on the frontiers of Manchukuo and Inner Mongolia, and that the tension between Japan and the Soviet Union is increasing day by day. This despatch was sent by Mr. Edgar Snow, an American of Leftist tendencies, long considered an authority on the Communists both in China and Russia. Mr. Snow, in spite of his radical opinions, is generally rated as a newspaper man of sound judgment, whose opinions on subjects relating to Russia are worthy of consideration.

In connection with the possibility of war between Russia and Japan, it is interesting to note that one constantly hears well informed Chinese express the conviction that if China can hold out until spring, war will certainly break out between these two nations, and the Japanese Army will have its hands so full with operations elsewhere that the pressure on China will be relieved. While this is believed to be another case of the wish fathering the thought, it still seems reasonable to suppose that Japan now having mobilized over five hundred thousand troops in China, it is very unlikely that she will go to the trouble and expense of sending them home again if conditions seem propitious next spring for an attack on Russia.

The Tokyo *Asahi* claims to have learned from reliable sources that Vladivostok now has a garrison of over 85,000 troops, and that this number is being increased daily. It is also stated that elaborate works are being constructed to protect the population against air and gas attacks. All of which sounds very much like just the sort of despatch a Japanese paper would print from time to time about Vladivostok, but which may nevertheless be true.

8. Anglo-Japanese Relations.

(1) British to Make Claims for Damages in Shanghai.

A Reuter despatch from London states that the question of compensation for losses sustained by British subjects in Shanghai during the recent fighting there was brought up in the House of Commons on November 15th. The British Under-Secretary for Foreign Affairs is reported to have stated that all British subjects whose property has been damaged should prepare claims to be filed against the Japanese Government, and that the British Consul General in Shanghai would be instructed to offer every assistance in the preparation of such claims.

The editor of the Japanese-controlled Peking Chronicle, himself a British subject as a Canadian citizen, recently devoted considerable space in his editorial columns to statements that no precedent could be found in international law to justify the filing of such claims.

(2) Japanese Abuse of the British.

Almost every day reports appear in the Japanese press of condemnations of Great Britain by various organs and societies, many of which have been formed especially for the purpose of berating the British. Reuters, the British news agency, was recently made the subject of a bitter attack by the Yomiuri Shimbun, a Tokyo yellow journal. In commenting on a recent interview granted by General Matsui to foreign correspondents in Shanghai on November 11th, the paper featured the headline, "Matsui Shows Great Britain Where to Get Off," and contained the statement, "The vicious lies concocted between China and Great Britain and spread by Reuters will now be driven out of Shanghai together with the Communist troops. The fall of Shanghai marks the ousting of fiction in news." The fall of Shanghai, the paper adds, was probably a greater blow to Great Britain than the attacks by mysterious submarines.

One Mr. Tsuda, identified by the Japanese press as "President of the Kanegafuchi Spinning Company," recently attacked Great Britain in a speech at a general meeting of the Kobe Export Silk Traders' Association. Mr. Tsuda branded Great Britain as "a nation unworthy of respect," and stated that she is not and never has been a friend of Japan. It would appear that Mr. Tsuda has never read the history of the Russo-Japanese war, and is ignorant of what the friendship of England meant to his country in that conflict.

Domei reports from Tokyo that a monster national mass meeting was held in Shiba Park on November 27th to express open indignation against Britain for its attitude in connection with the Sino-Japanese war. The gathering, says the report, was attended by hundreds of thousands, including many women."

In reflecting upon the present unpopularity of England in Japan, it is difficult to realize that a few months ago the Japanese press was full of expression of friendship toward Great Britain, and that the two nations were generally believed to be on the point of signing a trade agreement which would have made them virtual allies.

9. Supply of Munitions to China.

(1) Japan Objects to Transport of Munitions Through Indo-China.

Transocean reports from Tokyo that Japan recently delivered a virtual ultimatum to France concerning the delivery of munitions to China by way of the Haiphong-Yunnan Railway. According to the report, the matter first became the subject of a protest on October 13th, after which the French authorities promised to discontinue deliveries of munitions as soon as contracts then in effect had been filled. Recently, however, the Japanese military authorities are reported to have informed the French Embassy in Tokyo that unless transportation of munitions to China through Indo-China ceased at once, air raids would be carried out on the railway to Yunnan, which line is owned by a French company.

Reuter reported from Tokyo on November 13th that the spokesman of the Japanese Foreign Office was extremely reticent on the subject of the reported ultimatum when questioned at a press conference. Later press reports from Paris state that French Government officials deny that an ultimatum was issued concerning arms shipments, but are said to have admitted that Japan had delivered a verbal warning on the subject. Domei claims to have learned in London that the French Government has ordered authorities in Indo-China to prohibit the passage of arms bound for China, and the report further states that this order was the result of a vigorous protest from the Japanese Government.

If France has yielded to demands by Japan concerning the shipment of munitions through her territory, it may be that her action was dictated by apprehension lest Japan might seize the Island of Hainan, in the Gulf of Tongking south of Kwangtung Province, in reprisal for French aid to China.

(2) Soviet Planes for China.

Reports continue of deliveries of Soviet planes to China, but thus far none has been positively identified. Captain Roberts, Acting Assistant Military Attache in Nanking, reported, however, on November 23rd that six planes which had taken part in aerial combat over the city on that date were generally supposed to be of Soviet manufacture. They were described as resembling American Boeings and being very fast but apparently not easy to maneuver.

(3) Mr. Eden's Views on Supply of Munitions to China.

Mr. Anthony Eden, the British Foreign Secretary, stated in the House of Commons on November 24th that it was entirely proper for any state, a member of the League of Nations, to supply arms to China.

10. Manchukuo.

(1) Germany Grants Credit to Manchukuo.

It was announced in Hsinking on November 16th that a credit agreement had been concluded between the Central Bank of Manchukuo and the Otto Wolf financial organization of Germany whereby thirty-five million yen in credit is granted to Manchukuo for the purchase of goods in Germany.

(2) Italian and German Recognition of Manchukuo.

A Tokyo Domei despatch of November 18th states that Germany and Italy will shortly extend recognition to Manchukuo in order to strengthen the international front against the Comintern. It is further stated that Italy has already decided on recognition and that Germany will soon follow suit. The opinion is expressed that Japan will shortly recognize the Franco regime in Spain in exchange for the recognition of Manchukuo by Italy and Germany.

Havas, the French news agency, reported from Berlin under date of the 26th that rumors to the effect that the Reich will recognize Manchukuo in exchange for Japan's recognition of the Franco government are at the least premature, and that Germany does not contemplate recognition of the new state for the time being.

(3) Budget for the Fifth Year of Kangteh.

Domei reports that the Manchukuo Government is drawing up its budget for next year, which will total six hundred million yen.

11. Foreign Aid to China.

(1) The Lord Mayor's China Fund.

The President of the British Red Cross announced in London on November 11th that the Lord Mayor's China fund now amounted to about £70,000, as well as contributions of relief supplies such as blankets and clothing. Of this £15,000 had been sent to China, £20,000 had been spent on drugs and instruments, and £2,000 had been allocated for the purchase of blankets and clothing. The first shipment of medical supplies, sent during the early part of November, weighed over twenty-one tons.

(2) German Medical Aid for China.

Reports from Berlin state that the German Red Cross has decided to send large amounts of medical supplies to China to be placed at the disposal of the Chinese Red Cross.

(3) American Aid.

Three hundred packages of tetanus antitoxin and 500 packages of other medicines arrived in Nanking by air express on October 30th, having taken only nine days to come from San Francisco. Three aviation companies handled the shipment. Pan American Airways carried it from San Francisco to Hongkong via the Clipper, the Eurasia Company conveyed it to Hankow, and a China National Aviation Company (American-Chinese capital) machine landed the consignment in Nanking.

(4) League of Nations Medical Mission.

The first of three sanitary commissions to be sent to China by the League of Nations will leave for the Far East on December 10th, according to a Havas report from Geneva. The mission is to be headed by two French physicians, Doctors Lasnet and Laigret of the Tunis Institute Pasteur. No date has been fixed for the departure of the other two missions.

12. Establishment of Japanese General Headquarters.

In a brief communique issued in Tokyo on November 20th, the War and Navy Offices of the Japanese Government jointly announced that Imperial Headquarters was established as of that date in the Imperial Palace. The announcement of the establishment of the new Headquarters is hailed by the Berlin *Volkische Beobachter* as marking a definite step in the transformation of Japan into a totalitarian state, and forecasts other measures along this line which will probably be, according to the Tokyo correspondent of the paper, more of military than political nature.

The establishment of Imperial Headquarters has of course raised considerable speculation as to whether Japan will make a formal declaration of war on China, a step which has been considered for some time in Japanese Government circles. A statement made in Tokyo on November 27th by the Japanese Premier, Prince Konoye, is therefore of particular interest. Prince Konoye's statement is quoted by the *Asahi Shimbun* as follows: "At present we have decided not to declare war. If any change occurs in the situation the necessity for a declaration of war may arise."

The declaration which Japan has made on numerous occasions since the outbreak of the war with China that she has no territorial ambitions in this country was considerably tempered by a statement made on November 25th by General Ugaki, a former Minister of War. According to Reuter, General Ugaki stated that while he was convinced that the Japanese Government, at present, had no territorial ambitions in China, nevertheless, if warfare was prolonged, with an increase of Japanese sacrifices and casualties, there will necessarily be changes in Japanese national aspirations.

This sounds ominous, although it is evident that the statement may have been made with a view to intimidating China into suing for peace before Japan's losses make her too ambitious. General Ugaki, incidentally, is persona non grata to the Japanese Army because of the reduction of three divisions in the land forces made while he was Minister of War.

13. Mongolia.

Domei reports from Kalgan that representatives of the Autonomous Governments of Southern Chahar, Northern Shansi, and Inner Mongolia, meeting in that city on November 22, 1937, or according to the Mongol calendar on November 22nd, year 732 of Genghis Khan, have organized a Joint Committee of the Mongolian Frontier in order to effect closer cooperation between the three regimes in matters of common concern, such as industry, finance, and communications. It is stated that the three governments have agreed that none may withdraw from the Committee without the consent of the other two. Formation of the Committee is said to be for the purpose of combatting the effects of the alleged Sino-Soviet pact.

This office learns from a foreigner recognized as an authority on Mongol affairs that General Pao Yueh-ching, a division commander under Teh Wang, now the real head of the new Mongol State (see our No. 9606, par. 23), was recently in Peking and reported considerable apprehension in Inner Mongolia over reports that Japan intends to make use of the Inner Mongolian Army to attack Outer Mongolia. Japan's intentions, according to General Pao, may be to use the Inner Mongolian Army to test out the Soviet reaction to an attack on Outer Mongolia. If the Soviet permits the attack, well and good; but if she reacts too strongly and Japan does not feel inclined to press the matter, the blame can be laid onto Inner Mongolia.

14. Economic.

(1) Economic Development of North China.

Items concerning Japan's plans for the economic development of North China continue to occupy much space in the press, but a careful perusal of these articles fails to show that such plans have advanced to any great extent beyond the paper stage. Prince Konoye, the Japanese Premier, on November 27th, spoke succintly and presumably authoritatively on the subject of economic development as follows: "I understand that Mr. Y. Matsuoka, President of the South Manchuria Railway Company, has his own opinions about the exploitation of North China, but so far no concrete measures have been evolved." (See No. 9606, par. 17 (1).) The Prince further stated, however, that plans in this direction are at present being worked out by the planning department of the Cabinet, and he expressed the hope that effective measures would be devised to invite a smooth flow of capital into North China for the development of that area.

(2) Purchase of Cotton in North China.

Raw cotton is a commodity produced by North China of which Japanese spinning mills can consume a tremendous amount, and it is probable that the desire for an assured source of supply of this staple has been a major consideration in Japan's plans for domination of North China. Reports from Tokyo state that the Cabinet Planning Board has approved the formation of a syndicate to import 200,000 piculs (1500 tons) of cotton from North China. The Bank of Chosen is to lend 30,000,000 yen to the Bank of Hopei to finance the deal. If the plan to purchase the cotton is carried out, the spending of yen 30,000,000 will do much to help the cotton farmers of North China.

Japanese cotton exporters in Tientsin are reported to be alarmed at the governmental approval for the formation of this syndicate, the operations of which may seriously threaten their business.

(3) Money and Banking.

Japanese reports from Shanghai state that the Chinese Government banks have removed their Shanghai offices into the French Concession. With the removal of the Ministry of Finance to Hankow, head offices of the banks have been moved to that port.

The Chinese currency continues firm, being quoted today in Tientsin at around Mex.$3.36 for one U.S. dollar. Japanese military circles have been predicting the collapse of the Chinese dollar for some time, and even among foreigners friendly to China surprise is expressed that the currency continues so steady in the present situation, particularly in view of the staggering loss of the Shanghai customs revenue.

Havas reports from London under date of November 19th that heavy shipments of gold bullion have recently been made from China for concentration in British banks. Desire to place the bullion in a place of safety is given as the reason for the shipments. The same report states that only small amounts of silver coins have recently been sent from China to the United States, but that larger shipments may be expected in future, as the Nanking Government will probably endeavor to obtain loans in Washington, offering its silver reserves as security.

One factor which serves to hold up the exchange rate is the continued scarcity of paper money, due largely to the difficulties and risks of transporting notes from one large city to another.

(4) Shanghai Trade Figures.

According to the published reports of the Maritime Customs, Shanghai trade in October, in comparison with September, shows an increase of 18 per cent in imports and a decrease of 50 per cent in exports. Imports amounted to Mex.$8,610,000 and exports to Mex.$14,213,00. Showing the effect the war is having on Japan's trade with China, imports from Japan into Shanghai in October were 70,000 yen as compared with 38,000 yen in September.

15. Communications.

(1) Resumption of Services.

Partial passenger and freight service has been restored on the Peking-Hankow Railway as far as Shihchiachuang, and on the Tientsin-Pukow as far as Tsangchow. Traffic on the Peking-Suiyuan has been restored as far as Tatung, and the re-opening of the entire line is expected in the near future.

Reuter states that a bureau for the control of railways in North China will shortly be established under the direction of the South Manchuria Railway Company. Two Japanese have been appointed as Station Master and Assistant Station Master at the Chien Men Station. Both are experienced S.M.R. employees.

A London despatch of November 25th states that the Peninsular and Oriental line has resumed service to Shanghai, and that the Blue Funnel and Canadian Pacific will also resume sailings to that port in the near future. Announcement of a reduction of 75% in war risk insurance rate by Lloyds is given as a strong incentive for the resumption of service. Early resumption of American steamship service to Shanghai is predicted in New York, according to Reuter. Kokutso news agency announces that the D.K.K. line will resume sailings between Dairen and Shanghai, suspended since the war broke out, on December 6th.

(2) New Railway for North China.

The Japan Advertiser is authority for a statement that the South Manchuria Railway Company proposes to finance the following railroad construction in China: Widening to standard gauge the Shihchiachuang-Taiyuan and Taiyuan-Tatung narrow gauge lines (the latter is not completed); Tientsin-Shihchiachuang line, 180 miles, cost Y.25,000,000; Tsinan-Taokow, 175 miles, Yen 21,950,000; Kupeikow-Tungchow line, 75 miles, Yen 10,410,000. The company also proposes to improve harbor facilities at Tangku and make Tientsin the main port of North China with Tsingtao and Chinwangtao as auxiliary ports.

16. Fate of Missionaries.

The French Embassy in Peking has informed the American Embassy that the nine Europeans kidnapped from the French Catholic Mission in Chengtingfu on October 9th (see No. 9606, par. 4 (2)), were stabbed to death by bayonets in the hands of soldiers wearing Manchukuo uniforms, and their bodies cremated. These facts are stated to have been brought to light in an investigation conducted by a French priest in conjunction with the Japanese Military. The French Embassy reports that no reply has been received to communications with the Japanese Embassy on this subject. No motive has been established for the killing of the missionaries. The dead include one Dutch Bishop; and one Austrian, one Polish, one Czech, and three French priests.

An official of the American Embassy here characterizes this wanton killing of foreign Catholic missionaries as one of the most serious incidents which has occurred since the outbreak of the war.

All Protestant missionaries in parts of North China occupied by Japanese troops are reported safe.

17. Chinese Leaders.

Mr. Lin Sen, President of the National Government, was reported en route to Chungking from Nanking on November 24th.

Mr. Wang Ching-wei, President of the Central Political Council, arrived in Hankow on the 23rd. Messrs. Yu Yu-jen, President of the Supervisory Yuan; Sun Fo, President of the Legislative Yuan; and Dr. Wei Tao-ming, Secretary General of the Executive Yuan, arrived there on the 23rd.

Mr. Cheng Hsiao-hsu, former Premier of Manchukuo, described as a friend of Pu Yi (Emperor Kangteh of Manchukuo) and a leading royalist, arrived in Peking around the 10th of this month. His visit is stated in the Chinese press to be without political significance.

Dr. Chen Kung-po, China's good-will ambassador to the countries of Europe, was received by Premier Mussolini in Rome on the 19th. He arrived in Brussels from Rome on the 23rd, and is to proceed to Paris from the Belgian capital.

Transocean reports that T. V. Soong, Chairman of the National Economic Commission, and Mr. O. K. Yui, Mayor of Greater Shanghai, were still in Shanghai on November 24th. Domei reports that Mr. Sung left for Hongkong next day.

The statement in our last report (No. 9606, par. 13) that Chang Hsueh-liang was in Lanchow appears in error. He is reliably reported living in virtual confinement in Fenghua, Chekiang.

Yen Hsi-shan, "The Model Governor," Pacification Commissioner of that part of Shansi not lost to the Japanese, was recently seen in a small town south of Taiyuan by a foreign newspaper correspondent, who describes him as an old, broken man who does not seem fully to understand just what has happened to him.

18. Diplomats.

Sir Hughe Montgomery Knatchbull-Hugessen, the British Ambassador to China, arrived in Hongkong on the 16th of November from Java. Sir Hughe is reported as almost entirely recovered from his wounding by machine gun bullets fired from a Japanese plane on August 26th last. He states that he will proceed to Shanghai when his physicians permit.

Mr. Douglas MacKillop, the new British Counsellor to the Embassy in China, arrived in Shanghai from London on November 17th. Mr. MacKillop comes to succeed Mr. R. G. Howe, who flew to China to assume charge of the British Embassy after the wounding of Sir H. M. Knatchbull-Hugessen.

For and in the absence of the Military Attache:

David D. Barrett
David D. Barrett
Major, Infantry
Assistant Military Attache

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COMMENTS ON CURRENT EVENTS

November 27—December 20, 1937

RECEIVED G/2 W. D. JAN 27 1938

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1. Sinking of the Panay

The USS *Panay*, a gunboat of the Yangtze Patrol, was struck by an aerial bomb about 1:30 P.M. on December 12, 1937, while anchored near Hohsien, twenty-eight miles above Nanking, and sank shortly thereafter. In addition to a crew of seventy-two, the *Panay* carried the following passengers: Mr. George Atcheson, Second Secretary, U. S. Embassy; Mr. J. Hall Paxton, Second Secretary, U. S. Embassy; Captain Frank Roberts, Assistant Military Attache; Mr. Emil Gassie, code clerk of the U.S. Embassy; A. L. Patterson, aeroplane buyer; Roy Squires, lumber dealer; P. J. Broderick, Standard Oil Co. manager; C. M. McDonald, *London Times*; Norman Soong, Hawaiian-born Chinese, correspondent of the *New York Times*; Arthur Mencken, Paramount Films; Albert Ros, Chinese Secretary to Italian Embassy; Luigi Barazini, Sandro Sandri, Italian journalists; James Marshall, Colliers magazine; Wildon James, United Press; Norman Alley, Fox Movietone.

Casualties among the passengers and crew of the *Panay* as a result of the bombing are as follows: Died of wounds, Charles Ensminger, E. W. G. Hulsebus, and an unidentified Chinese mess attendant, all members of the ship's personnel; Mr. Sandro Sandri, Italian war correspondent. Mr. Emil Gassie, Embassy Clerk, was wounded, as were Lieut. Commander J. T. Hughes and Lieutenant A. F. Anders, Captain and Executive Officer, respectively, of the *Panay*; and A. K. Osak, P. D. Zeigler, C. S. Schrozh, N. L. Davies, K. J. Rice, J. H. Laing, and Charles Birk, all members of the crew.

Along with the *Panay*, three Standard Oil vessels, the *Meishan*, *Meian*, and *Meiping*, were bombed and sunk. Captain Carlson, an American commanding the *Meian*, was killed.

The sinking of the Panay has caused the most profound sensation of any incident since the beginning of the present war, with the possible exception of the shooting of the British Ambassador on August 26th. As the official reports of the affair have doubtless been carefully studied in Washington, it is not considered necessary to recapitulate, except in a very general way, the circumstances of the bombing. The salient points in the official report of Mr. George Atcheson to the State Department, in the preparation of which report Captain Roberts collaborated, are as follows:

(1) The Panay was bombed on a bright, clear day when the colors at her masthead and painted on her decks were clearly visible.

(2) After the passengers and crew were forced to abandon ship, they were machine-gunned by Japanese planes as they made their way to the shore in boats.

(3) After the passengers and crew had gained the shore and concealed themselves, Japanese planes flew over them, apparently with the intention of further attack.

(4) After she had been abandoned, the Panay was boarded by Japanese from a launch. These Japanese remained on board about five minutes and then left just before the ship sank. As this launch approached the Panay machine gun fire was opened on the gunboat.

(5) On the morning that the Panay was sunk, she was visited by a Japanese army officer accompanied by an armed escort, so that her presence in the river must have been clearly known to the Japanese.

According to a statement made by one of the officers of the Panay, machine gun fire was opened from the ship on the attacking Japanese planes. No such statement is included in the report prepared by Mr. Atcheson and Captain Roberts.

Were it not for the extreme gravity of the incident, the effect of which on future events may be of the most momentous nature, the haste with which the Japanese have apologized for the sinking of the Panay would border on the ludicrous. Apologies, so numerous that a careful tabulation would be required to determine their actual number, have been received from every conceivable official quarter, except from His Imperial Majesty, the Son of Heaven, the Emperor Hiroshito of Japan. The most important of these apologies, of course, was that broadcasted to the people of the United States by Mr. Hirose Saito, the Japanese Ambassador, from Washington on December 19th.

The only foreign newspaper in Peiping has featured a report that the President of the United States, upon receipt of news of the sinking of the Panay, dictated for transmission to the Emperor of Japan in person a demand for a public apology from His Imperial Majesty for the outrage. As far as can be determined from a careful perusal of other press despatches, however, the President merely directed the Secretary of State to inform the Japanese Ambassador that he, the President, was deeply shocked and concerned over the incident and requested that the Emperor be so informed. Whatever the true facts of the matter, however, the general impression has been created here that a personal apology was demanded of the Emperor. The announcement of the alleged demand for an apology appeared in The Peiping Chronicle under a Transocean date line. Transocean is a German news agency, the reports of which are highly colored by political bias.

The Japanese point as an evidence of their sincere desire to punish those responsible for the bombing to the recall of Rear Admiral Taizo Mitsunami, the Japanese chief of aerial operations in the Shanghai area, While Japanese in the highest circles have shown a commendable willingness not only to apologize but to shoulder squarely the responsibility for the bombing, they have not been slow to offer excuses for the action of their aviators. The principal excuses offered so far are that the Panay's colors were not visible and that she and the Standard Oil vessels were mistaken for Chinese ships with Chinese troops on board. The prize excuse, however, is reported by Reuter as having come from the spokesman of the Japanese Foreign Office to the effect that clear view of the Panay was obstructed by smoke from the fires burning in Nanking, twenty-eight miles away. Such a patently silly excuse might be taken as a serious reflection on the ordinary common sense of the source from which it emanated.

Reuter, in its despatches from Washington, has given decided emphasis to the statements of leaders in the United States of pacifist and isolationist leanings. In the first accounts of the reaction of Congress to the bombing, Reuter quoted five members who expressed pacifistic sentiments and only one who maintained that the rights of the U. S. Navy in Chinese waters should be defended. On December 18th, in another Washington telegram, Reuter stated:

> "The objections in diplomatic quarters in Washington to a fleet demonstration are that Japan is not likely to be impressed by a mere naval parade by a nation so avowedly pacifist as America and that Manila, the only base from which such a parade might originate effectively, is insufficiently defended and dangerously exposed.
>
> "The indications here are that the American Government is not disposed to follow naval opinion too far at present because it knows that public opinion at present is not ready to endorse Draconian measures in order to preserve American rights in the Far East."

An Englishman of long experience in the Orient once spoke of the Chinese as "a people who yield everything to force and nothing to reason." Assuming that the remark applies equally well to the Japanese, the effect of the above quoted despatch among Japanese readers of the foreign press is not difficult to imagine.

2. Formation of a New Government.

Sired by the Japanese Army and damned by the enemies of Japan, "The Provisional Government of the Republic of China" (Chung Hwa Min Kuo Lin Shih Cheng Fu) was proclaimed in Peking on December 15, 1937. Contrary to reports which have been in circulation for some time that it would be headed by Tsao Kun or Wu Pei-fu, the new government has no president, no foreign affairs department, and no military department, which suggests the thought that the functions of the last two named will be handled by the Japanese.

The organization of the new government is as follows:

Political Commission - Chairman, Tang Erh-ho
  Secretariat:
  Includes standing committee composed of the chairman, Wang Ke-min, Chu Shen, Tung Kang, Wang Yi-tang, Chi Hsieh-yuan.
  Additional Members: Chiang Chao-tsung, Kao Lin-wei.

Administrative Commission - Chairman, Wang Ke-min.
  Secretariat:
  Administration section: Wang Ke-min;
  Peace Preservation section: Chi Hsieh-yuan;
  Educational Section: Tang Er-ho;
  Legislative section: Chu Shen;
  Rehabilitation section: Wang Yi-tang.

Judicial Commission - Chairman, Tung Kang.
  Secretariat:
  Judicial department.

Peking Special City - Mayor, General Chiang Chao-tsung.

Hopei Provincial Govt. - Chairman, General Kao Lin-wei

Tientsin Special City - Mayor, General Kao Lin-wei

The background of the gentlemen, except General Chiang Chao-tsung, whose names appear above will be found in the Fifth Edition (1936) of the China Who's Who, published by the China Weekly Review. General Chiang's dossier appears in the 1925 edition. Mr. Chu Shen, Mr. Tang Er-ho, and Mr. Wang Yi-tang were members of the now long defunct Anfu Party, ill-famed for its negotiation of the Nishihara Loans; while the others, with the exception of General Chiang, were affiliated with the Chihli Party, a clique which opposed the

Anfuites in 1920 (see Woodhead, "The Truth About the Chinese Republic," page 62, et seq.; and Lynn, "Political Parties in China," Chapters VII and VIII). None of the members of the new government is young. General Chiang, the senior, is 78; General Chi Hsieh-yuan, the junior, is 58. Mr. Wang Ke-min is almost blind. He will be remembered in connection with his appointment as Chairman of the Economic Commission of the Hopei-Chahar Political Council in September of last year, an appointment which opposition in Japanese quarters prevented him from accepting (see our No. 9444 and No. 9461).

General Chiang, as far as is known, has never been identified with any particular political party. He has lived in Peking for some years since his retirement from the army, and has come into prominence on several occasions as an upholder of the peace of the city in times of stress, on account of which he is held in considerable esteem by the local populace.

Before the formation of the new regime, General Chiang was Chairman of the Peking Peace Maintenance Commission and concurrently Mayor. Mr. Kao Lin-wei held similar positions in Tientsin. Mr. Chu Shen was manager of the Peking Tramway Company. Mr. Tang Er-ho and General Chi Hsieh-yuan were recently members of the lamented Hopei-Chahar Political Council.

The greater part of the proclamation announcing the formation of the new government is devoted to a scathing condemnation of the Kuomintang Party, particularly for having engaged in war against Japan. The proclamation guarantees that the new government will assume all foreign obligations "which have been proclaimed to the people." In explaining the new body to the newspapermen, Mr. Tang Er-ho stated that it begins its existence with the de facto recognition of Japan and seeks recognition by all the Powers; that it would be friendly to all Powers except the Communist; that it welcomes the co-operation of foreign powers and invites foreign capital for its economic development; and that it will never close the door to any power. Mr. Tang also stated that the new government represents all parts of China, including the Shanghai area, from which the Kuomintang Party has been expelled.

Within a day or so after its establishment, all members of the new regime except General Chiang proceeded in a body to Tientsin, declaredly for the purpose of calling on Japanese military authorities and discussing new policies. It was freely predicted here that the real purpose of the visit was to call on Tsao Kun, who now resides in the British Concession, and try to induce him to assume the helm of the new government.

Previous to the formation of the provisional government, an autonomous regime for Honan, with the capital at Changte, had been announced on November 27th; while a similar administration was proclaimed in Taiyuan for Shansi on

December 2nd. Considering how little of Honan and Shansi is under the control of the Japanese, the formation of these governments seems of little significance. It is presumed that they will soon be incorporated into the Provisional Government of China.

The Peace Preservation Committees of Peking and Tientsin have dissolved themselves. The East Hopei Regime has declared its support of the Provisional Government and its early dissolution is anticipated.

As was to be expected, the populace of Peking in general paid little attention to the inauguration of the new regime, much ballyhoo in the Japanese dictated local papers to the contrary. Most of the shops broke out the five-barred flag of the old Chinese Republic. As these flags were sold by the police in a shop-to-shop canvas, most proprietors probably felt it would be to their advantage to display them. Incidentally, the adoption of the five-barred standard is said to signify the restoration of the Chinese Republic in the state of pristine purity in which it existed before it was debauched by the Kuomintang.

What was described in the local press as "a monster parade and mass meeting" was held a day or so after the advent of the new government, but this was actually a very tame affair. The fact that participants, outside of the usual crowds of gaping idlers, were secured mostly by requisition on the public school children may account for the lack of enthusiasm displayed. The huge celebration banquet given by the Mayor, to which 1,500 guests were invited, may have been a more joyous occasion, but as no Americans were bidden to the feast, first hand accounts of the gaiety, if any, are not available. The Mayor, in spite of his seventy-eight years, is said to be a good performer on the "bottle front," as one of our Japanese military friends has so neatly put it.

Most Chinese, except those having a pecuniary interest in the new government, seem to take the attitude that as a creation of the Japanese Army it merits nothing but their indifference and contempt. This is the general feeling at the present time, but it is a well known fact that the Chinese are a most adaptable race, and if this regime continues, the longer they live under it the less hostility they may be expected to feel toward it.

Predictions concerning the future of the regime which has just come into existence are of little use. That it will be recognized in the near future by any of the countries who have refused recognition to Manchukuo seems very unlikely at the present moment. There is the possibility, however, that if the government of China, of which the most important organs are now located in Hankow, degenerates into a group of mere military leaders fleeing hither and yon over such portions of the country as have not been conquered by Japanese armies, some nations may feel that the new provisional government is more nearly China than a Kuomintang or Soviet-controlled administration. One thing seems certain and that is if the Japanese can restore Peking to even a faint semblance of its former glory, they will have done much to win the good will of other nations.

3. Shanghai.

Japanese interference in the affairs of the Shanghai Settlement, commented on in par. 2 of our last report (No. 9614) has continued and during the early part of December was a subject of general interest and concern in many quarters until it was crowded into the background by recent more startling events.

On November 28th the Japanese assumed control of the Chinese telegraph and wireless administrations in Shanghai, taking over all branches and instituting their own censorships. On that date the Japanese also took over the censorship of Chinese newspapers in Shanghai, a function formerly delegated to a Kuomintang official. There was no interference with foreign cable companies, from which Chinese censors had voluntarily withdrawn a week before.

On December 3rd Japanese troops in Shanghai staged a parade through the Settlement, the route of march including Nanking Road, the main business thoroughfare. Prior to the march, which the Japanese maintain was made for "tactical reasons," the Settlement authorities protested on the ground that it might cause serious trouble; while the commanders of the American and British troops stated that the march was contrary to their wishes and they could not accept responsibility for any incidents arising therefrom.

Fears that the march might participate trouble were proved amply justified by the incidents which took place during this demonstration of the military power of Nippon. Among these incidents, the most serious was the throwing of a bomb at the marchers by an unidentified Chinese or Korean, who instantly thereafter was shot dead by a Settlement policeman. The bomb exploded, wounding three Japanese soldiers and a Chinese constable. After the bomb throwing, Japanese troops threw a cordon around the Sincere Department Store, in front of which the incident occurred, blocking off an area roughly a mile square. The cordon was withdrawn after the march had passed.

Another incident involved an Englishman, who snatched a flag out of the hand of a Japanese civilian and was punched in the face by Japanese who resented the act. The Englishman had to be rescued by the police and placed in a police station to prevent him from being seriously harmed. One Chinese committed suicide during the march, in full view of the Japanese troops, by jumping off the roof of the Great World Building on Tibet Road. There were a number of other incidents, some involving Americans, but none attended with serious results.

The day after the march through the Settlement, Japanese troops precipitated another tense situation by attempting to drive four trucks, loaded with supplies and guarded by armed soldiers, through the French Concession. They were refused entry into the Concession but were later permitted to pass through under escort of armed French police.

On December 4th, a memorandum was presented to the Commissioner of the Settlement police by a representative of General Matsui, commander of the Japanese troops in Shanghai. The memorandum covered the following points:

(1) Japanese troops to have the right to enter any part of the Settlement without previous notice.
(2) Shanghai municipal police to prevent recurrence of such incidents as the bomb throwing of the previous day.
(3) Japanese troops to have the right to take all necessary measures to preserve peace in the Settlement.
(4) The Japanese Army, considering the Shanghai municipal police incapable of suppressing anti-Japanism, reserved the right to take any necessary steps therefor, including search of persons and property.

A more stupid and provocative action than that of the Japanese Army in staging the march through the Settlement is difficult to imagine. It served no military purpose whatsoever except possibly to impress clearly upon resentful Chinese and foreigners the fact that Japanese rights in Shanghai are based on might alone.

Possibly feeling that the presentation of the above memorandum gave them a free hand, Japanese consular police on December 6th raided an hotel in the Settlement and arrested four Chinese. No previous warning of the arrest was given, nor were the charges stated. It is encouraging to note, however, that a day or so after this high-handed appearing action, the Japanese Consul General in Shanghai sent a written apology for the incident to the Municipal Council stating that the raid had occurred without his knowledge and guaranteeing that steps would be taken to prevent a recurrence.

On December 6th, Mr. Su Hsi-wen, a Japanese-educated native of Fukien Province, proclaimed himself "Mayor of the Ta Tao (Great Way) City Government of Shanghai, and established his office in the former Police Bureau Building in Pootung.

The flag of the new government is described as having "a yellow background with a circle, half blue and half red, resembling the symbol of Taoism." The new government of course has the backing of the Japanese armed forces, but its inception created little stir and not much has been heard of it since.

As a result of the Japanese censorship of Chinese in the Settlement, a number of Chinese newspapers have suspended publication, among them the *Shen Pao*, believed to be the oldest newspapers in China; and the *Ta Kung Pao*, formerly published in both Tientsin and Shanghai and long considered one of the best papers in the country. In connection with Japanese censorship, it is interesting to note that in Peiping, where only news passed by the military is published in the native press, the majority of intelligent Chinese will not read their own vernacular papers, contending that not only is the news contained therein entirely unreliable but that the language used is so Japonified as to be difficult to understand.

4. The Chinese Maritime Customs.

Summing up the stand of the British Government toward the question of Japanese interference with the Chinese Maritime Customs in Shanghai, Captain Anthony Eden, the British Foreign Secretary, stated in the House of Commons on December first that the British Government had reminded the Japanese Government that international interests were bound up in the Customs administration and that the British Government expected to be consulted before the Japanese Government decided to make any alterations in the Customs, particularly during the present hostilities. Captain Eden also stated that the United States and France had not followed the British lead in this matter. In making this statement, Captain Eden was apparently either ignorant of or failed to mention the fact that on November 29th the United States Government made vigorous representations to the Japanese Government in written form against any attempt by the Japanese military authorities in Shanghai to disturb the Chinese Customs.

On November 29th, the official spokesman of the Japanese Foreign Office, in an interview to the press, explained in detail the position of the Japanese Government vis-a-vis the Chinese Maritime Customs. The essence of the spokesman's statements was that Japanese action to control the Shanghai Customs was dictated by military necessity and must continue while military operations continued. It would be intolerable, declared the spokesman, for the Customs revenue to be used by the Chinese for the purchase of munitions. The spokesman further stated that the Japanese Government did not consider itself bound to consult England

and the United States concerning revision of the customs rates, but did feel itself obligated to respect foreign rights and interests in the Customs.

From the above it would appear that relations between Great Britain and Japan as concerns the Customs stand more or less at an impasse. Nothing of any particular importance on the subject has appeared in the press for the past week or so, but it may be safely assumed that neither side has receded from its original stand and that the matter will certainly come up again.

It is quite probable that the Japanese themselves have not yet made up their minds as to the best course to follow concerning the Customs in Shanghai. This is indicated in a Reuter despatch from Tokyo under date of December 10th, which reports that the Japanese Government had stated it was still not satisfied about the Shanghai Customs and that negotiations on the subject were still proceeding. The negotiations referred to are believed to be between the Japanese and the British Governments, in spite of the fact that Japan has declared she has no intention of consulting Great Britain on the subject of the Customs.

In North China, the establishment of the new Provisional Government has had an immediate and decided effect upon the Customs. It was announced in Peking on December 16th that the Maritime Customs in Tientsin and Chinwangtao had been taken over by the Provisional Government as the result of an agreement reached with the Commissioner of Customs in Tientsin, Mr. W. R. Myers, an Englishman. A statement explaining this action was issued by Mr. Wang Ke-min, Chairman of the Executive Committee of the Provisional Government, as follows:

> "The Customs issue is an important administrative and financial problem with its close relations with trade and industries. Therefore, the Administration advised the Commissioners of the Tientsin and Chinwangtao Customs to place the organs under its jurisdiction. In cognizance of the situation, the two Commissioners and their subordinates readily accepted the advice, and this resulted in the taking over of the Customs.
>
> "A fair and appropriate method will be adopted for the liquidation of loans secured on the Customs revenue."

Officials of the Provisional Government have intimated that the taking over of the Tientsin and Chinwangtao Customs will be followed by a lowering of tariffs on certain articles which directly affect the welfare of the people. More important than this, however, is the question of whether the new regime will establish preferential tariffs favoring

Japanese imports, which would have a very bad effect on foreign trade, particularly that of Great Britain. Reports from London indicate that British business circles are already worried over this possibility.

As far as the personnel of the Customs administration itself is concerned, it is believed that the foreign staff is more or less relieved that the question of control, in North China at least, has been settled for the time being. The only foreign member of the Customs administration in Peking, an Englishman, intimated to a member of this office a few days ago that the money collected from the small Customs station in the Peking Post Office had not been remitted to Nanking for some time, but had been used to pay running expenses of the local Customs service, any surplus remaining being placed on deposit in a foreign bank.

Quite different from the apparent complacence with which the personnel of the Customs accepted being taken over by the Provisional Government has been the recalcitrant attitude of the personnel of the Tientsin Telephone Administration. A proclamation has been issued by the staff and employees of the Administration, the offices of which are in the British Concession, threatening to dismantle the entire telephone apparatus and suspend service if the new government takes over the telephone administration by force. The offices of the Administration, because of their location in the British Concession, have thus far been immune from Japanese interference. As the main telephone exchange in Tientsin is, however, in the Chinese city, the threat to dismantle apparatus must apply only to the foreign concessions. The proclamation of the Telephone Administration personnel states that they are an organ of the Central Government and can obey only the orders of the Central Government.

The Tientsin Telegraph Administration, which functions under the Ministry of Communications, has not yet been taken over by the new government. The offices of the Administration are located in the French Concession, where telegrams are still being accepted for places in the war zones, but delivery is not guaranteed.

5. Chinese Communist Influence in Hankow.

Reports from the Military Attache, now in Hankow, state that negotiations of the utmost importance are now going on in that city between government leaders and representatives of the Chinese Communists. The question under negotiation is the old one of the admission of the Reds into the government. The exact state of the negotiations is not known, but Colonel Stilwell reports that a far-reaching reorganization of the government is not at all unlikely.

Just what changes in the present line-up of Chinese leaders will result if a reorganization of the government is effected to admit the Reds is difficult to predict. It seems fairly certain, however, that Chiang Kai-shek will have to assume at least a pink tinge if he is to retain the measure of control now remaining to him. Pai Chung-hsi, the Kwangsi leader, and Chang Chun, former Foreign Minister and now Chief Secretary of the Central Political Committee of the Kuomintang, are said to be very strong in Hankow at present, while Ho Ying-chin's influence is steadily on the wane.

The latest report from Colonel Stilwell concerning the negotiations is a most interesting one. He has learned from a most reliable source that Yu Yu-jen, President of the Control Yuan, has demanded the resignation of Dr. H. H. Kung, the Minister of Finance; Wang Ching-wei, Chairman of the Central Political Council; and Chen Li-fu, Director of Party Publicity for the Kuomintang. The demand is believed to be backed up by Chang Fa-kuei and other pro-Red leaders, who have also demanded the release of all political prisoners, the withdrawal of restrictions on the right of assembly, and a drastic change in the present methods of conducting the military campaign. The resignation of Chen Li-fu is probably desired in order to give the Reds control of the publicity department of the Kuomintang.

The importance of the present negotiations is indicated by the presence in Hankow of Chou En-lai, who controls the political activities of the Chinese Reds.

That inklings of the situation in Hankow have reached the Shanghai press is indicated in a United Press despatch of December 20th which states that vernacular papers on that date carried reports that the Central Political Council had been abolished in a drastic government shake-up which has stripped of power Wang Ching-wei; Chang Chun, Chief Secretary of the Central Political Council; Ho Ying-chin, Minister of War; Hsiung Shih-hui, Chairman of Kiangsi; Chen Kung-po, former Minister of Industry; and Huang Shao-hsiung, Chairman of Chekiang. While the substance of this report is believed largely incorrect, it indicates that circles outside Hankow may be expecting important changes in the government.

Although the Red forces, particularly the recently organized Eighth Route Army which now holds a considerable part of Shansi south of the Chengtai Railway, have for some time been actively engaged against Japan in Suiyuan and Shansi, there is no indication that the Reds have attained any measure of political power in the Chinese government. Hence it is to be expected that they should be pressing strongly for formal recognition, and it will be surprising if their efforts do not bring some definite results in the near future.

6. Anglo-Japanese Relations.

(1) Sir Ian Hamilton Sounds Alarm.

Reuter, in a London despatch of recent date, quotes General Sir Ian Hamilton, the distinguished veteran of the South African and World Wars who commanded the British Army forces at Gallipoli, as follows:

> "The Japanese Emperor's road is clearly marked, Hankow, Hongkong, Singapore, Burma, Assam, Bengal. Nothing less than Europe can definitely hold up his army.
>
> "How monstrous it will seem to posterity that throughout 1937 the European nations were quarrelling like dogs over a bone about Spain, which hasn't the slightest intention of allowing herself to be gnawed by any observer, when we ought to be holding conversations between the general staffs not only of Britain and France but of all Europe.
>
> "I have always urged that Trincomalee and not Singapore should have been our wartime base."

General Hamilton is the author of "A Staff Officer's Scrapbook," an account of his experiences as a military observer in the Russo-Japanese war. Throughout this book he expresses decided admiration for the Japanese, particularly for their fighting ability.

(2) Incidents.

On December 4th the Butterfield and Swire steamer Suishan was machine-gunned as she approached Tsungming Island in the mouth of the Yangtze. The Chief Officer and the boatswain, both Chinese, were wounded. Tsungming Island is supposed to have been occupied by the Japanese troops since last August, but after the firing on the Suishan the Japanese denied that they had any forces ashore there at the time the vessel was machine-gunned.

On December 5th, Japanese planes bombed the Jardine Matheson steamers Tuckwo and Tatung at Wuhu. The first named vessel caught fire and was burned to the water's edge, while the other was beached by her crew after being holed. Splinters from the bombs which hit the merchant ships showered over H.M.S. Ladybird, wounding an officer. The British Chief Engineer of the Tatung was also wounded.

Before the Japanese had time to reply to the British demands for an apology for this incident, Japanese land batteries on December 12th at Wuhu fired on H.M.S. Ladybird and H.M.S. Bee. One seaman was killed and another wounded on the Ladybird. The same day the Japanese fired on a Butterfield tug carrying Mr. H. Prideaux-Brune, the British Consul at Nanking, and Lieutenant Colonel W. A. Lovat-Fraser, the British Military Attache. It will be recalled that Colonel

Lovat-Fraser was in the car with the British Ambassador when the latter was shot on August 26th. Fortunately there were no casualties on the tug carrying the Embassy officials. Mr. Prideaux-Brune and Colonel Fraser protested to the Japanese military commander at Wuhu, who informed them that he had orders to fire on every ship on the river. The Japanese military authorities have since stated that he should have said "on every Chinese ship on the river."

Also on December 12th, British gunboats and merchant vessels at Nanking were attacked three times by Japanese planes, the gunboats replying to the attacks with machine and three-inch guns. There were no casualties and none of the ships was hit.

The firing on the British ships of course created a great sensation in London, but locally the incidents did not receive the attention they would ordinarily have aroused because of the tremendous hue and cry raised over the sinking of the Panay. The British Government has protested in the strongest terms concerning the incidents and has demanded indemnities and definite guarantees to prevent the recurrence of such incidents in future.

(3) Viscount Ishii's Statement in London.

Viscount Ishii, a former member of the House of Peers and one-time Ambassador to the United States, now in England as a good-will ambassador, stated in London on December 12th that Japan had no territorial aims in China and would continue to respect the rights and interests of foreign powers in China "as long as the powers maintained an attitude of strict neutrality." London papers generally accepted the Viscount's statement as made with the full authority of the Japanese Government, but Japanese official quarters later declared that the statement had been made only in Viscount Ishii's capacity as a private citizen.

7. Anglo-Chinese Relations.

(1) New British Ambassador to China.

Announcement was made in London on December 20th that Sir Archibald John Kerr Clark Kerr, now British Ambassador to Bagdad, had been appointed Ambassador to China to succeed Sir Hughe Montgomery Knatchbull-Hugessen. The appointment did not come as a surprise, inasmuch as it had been stated officially in Hongkong on December 5th that Sir Hughe and his family would sail for England on December 11th. It is rumored that Sir Hughe's physical condition is not as good as press reports would indicate, and that it may require a long time for him to recuperate fully his health.

A British Foreign Office statement concerning the appointment declared that it had been hoped it would be possible to leave the Embassy in China in charge of the Counsellor of Embassy, Mr. R. G. Howe, until the Ambassador was able to return to China next spring. Recent events in the Far East, coupled with the uncertainty as to the actual date that Sir Hughe will be fit to return to duty, has made it necessary to re-examine the matter, said the Foreign Office, and it is now considered, in spite of complete confidence in Mr. Howe, Chargé d'Affaires, that it is essential for the British Government to be represented in China by a diplomat of ambassadorial rank. Sir Archibald is to proceed to China as soon as possible.

The new Ambassador has been in Bagdad since 1935. He entered the diplomatic service in 1906 and has served in Berlin, Buenos Aires, Washington, Rome, Teheran, and various other posts. During the world war he served as a private in the Scots Guards. Lady Kerr is the former Senorita Maria Teresa Diaz of Santiago de Chile.

(2) British Embassy Moves to Shanghai.

Removal of the British Embassy from Hankow to Shanghai was begun on December 3rd when members of the staff left for Hongkong via Canton by train. Mr. B.E.F. Gage, Second Secretary, was left behind to maintain contact with the Chinese Foreign Office. The Embassy party arrived safely in Hongkong on December 5th.

(3) Anglo-Chinese Incident.

After a long succession of Anglo-Japanese incidents comes a Domei report from Hongkong on December 20th that two British Army officers were attacked and beaten up by a Chinese mob near Kowloon on that date. According to the report, the Britishers were in company with a Major Takuji, the Japanese resident officer in Hongkong.

It is not anticipated that Great Britain will go to war with China over this incident.

8. Italian Relations with China and Japan.

The Italian Government extended recognition to Manchukuo on November 29th. China has protested vigorously through her Ambassador in Rome.

On December 1st, the Popolo d'Italia came out with a long article written by Signor Mussolini himself, expressing his pleasure in the failure of the Nine Power Conference at Brussels. The article, quoted by Transocean, stated that any child should have been able to foretell that the conference was doomed to failure, and goes on to say that since the experience of the powers with Italy they did not dare mention the word "sanctions."

"Japan is invulnerable," trumpets the article, "and economic measures directed against her are merely harmful to those who introduce them." The article concludes on this high note: "It is impossible to turn history from its natural course and injudiciously attempt to restrain natural impulses in the life of nations. That Japan intends to bring about radical changes in the map of east Asia is certain and anyone who thinks otherwise is doomed to disappointment.

It is reported that a commercial treaty between Italy and Japan will shortly be signed in order to adjust Japan's trade relations with Ethiopia and east Africa.

Forty Italians who have been serving with the Chinese air force at Nanchang as advisers and technicians have resigned and have left for Hongkong to take passage for Italy.

9. Missionaries.

Mr. Carl Leonard, an American missionary in Yuanping, about sixty-five miles north of Taiyuan, Shansi, was shot and killed by Chinese soldiers on October 7th. The only information concerning the affair thus far received has come from Japanese sources, but there appears to be no doubt that the Chinese were responsible. No information has as yet been received as to what Chinese troops were in the Yuanping area at the time of the killing.

Three American missionaries, Mr. and Mrs. Alva Harsh, and Miss Minneva Neher, disappeared on December 2nd at Yangchuan, Shansi, under mysterious circumstances which indicate the possibility of their having been killed by Japanese soldiers occupying the town. The missionaries left their compound at seven-thirty in the evening on December 2nd to visit a house a short distance away, after having been assured by the headquarters of the local Japanese detachment that it was safe to venture out after dark. They never returned. A combination of circumstances which need not be reviewed here serve to make the case a most complicated one which may never be entirely cleared up.

Major Truman Martin, of the U.S. Army Troops in China, and a representative of the United States Consulate General in Tientsin are planning to proceed to Shansi to investigate, but have not as yet been given the necessary permission by the Japanese military authorities.

10. Prospects for Peace.

As this report is being written, peace seems very far off. In our report of November 6th, the prediction was ventured that peace would either be attained or be in process of negotiation by January 1, 1938. It appears now that nothing less than a miracle can make this prediction come true. While it is believed that Japan would be glad to conclude a peace upon her own terms, every indication points to a determination on the part of China to continue resistance. Marshal Chiang Kai-shek, in a manifesto broadcasted from his headquarters, probably somewhere near Nanchang, made the following statement on December 17th: "No matter how the present situation may change, we must not surrender but march onward. To capitulate is to court sure national disaster. No matter how the international situation turns, we should do our utmost and should not be too ready to register disappointment. We must not entertain any inclination to depend on others."

Colonel Stilwell reports from Hankow that he can see no indications of weakening on the part of Chinese leaders there. He states that a calm and hopeful atmosphere prevails, and that the Chinese have confidence that they can continue the struggle. He has been informed from a very high military source that the Chinese still have one hundred and twenty divisions left with which to keep up resistance, twenty-five of which divisions, among them some of the best troops in the Chinese Army, have not yet been committed to action. The same source states that China has enough munitions to last six months.

Apparently the Japanese are fully aware of this determination on the part of China to continue the struggle, as is indicated by the statement made by Mr. Shigeru Kawagoe, the Japanese Ambassador to China, in an interview with the press in Shanghai on December 17th. "It is erroneous to think that Chinese resistance has been brought to an end by the Japanese occupation of Nanking," said Mr. Kawagoe, who further declared that continued hostilities were foreshadowed by Marshal Chiang Kai-shek's expressed determination to keep up resistance. Mr. Kawagoe also reiterated the familiar statement that British intercession in the dispute was out of the question.

Hopes for the completion of a peace between China and Japan were raised in many quarters by the report from Shanghai on December 2nd that the German Ambassador to China, Dr. Oscar Trautmann, was in Nanking to offer his good offices to Chiang Kai-shek as a peace negotiator. Some reports even stated the terms which Dr. Trautmann had been authorized to offer. The supposition on which hopes for peace were raised was that Dr. Trautmann had been sent directly to Nanking by Herr Hitler, who had previously sounded out the Japanese side. The London Daily Herald went so far as to venture the assertion that Herr Hitler was disturbed over the possibility of Japanese action in China driving China into the arms of Soviet Russia, and was anxious to see peace concluded.

It has been officially confirmed that Dr. Trautmann went to Nanking from Hankow, and it is generally believed that he interviewed Chiang Kai-shek, but what transpired at their meeting, if a meeting actually took place, is not known and probably never will be. The general impression is that Dr. Trautmann may have advised Chiang Kai-shek to sue for peace, intimating that Japan's terms might not be as hard as expected. Beyond this, nothing is known. Both Tokyo and Berlin have denied any official knowledge of peace overtures on the part of Dr. Trautmann.

Press reports from Japan state that the Cabinet is giving serious consideration to the question of renouncing recognition of the Chinese National Government, thus reducing it, in the eyes of the Japanese at least, to the level of a mere local regime. A late despatch on this subject appeared on the 20th in the Tokyo Asahi and stated that the Cabinet was determined to sever diplomatic relations with the Chinese Government, but saw no need for a hasty announcement of the decision.

The Japanese Premier, Prince Konoye, according to Reuter, announced to the Emperor on December 20th the determination of the Japanese Government to punish thoroughly the Chinese national administration. This decision is said to have been reached at a Cabinet meeting to formulate Japanese policy toward China in the light of the capture of Nanking.

A gesture for peace which attracted some attention because of its source was made in Shanghai on December 2nd by The North China Daily News, a paper which is edited by Mr. C. B. W. Woodhead, the British journalist who, although considered a die-hard by many Chinese, is generally rated in foreign circles as an exceptionally well informed and generally fairminded observer of the Oriental scene. In a leading article the paper urged the Chinese to sue for peace, concluding with the following words, "The Central Government still has a grip on the situation. Having heroically protested, China can afford to raise the issue of peace without fear of ignominy or any sense of humiliation."

An appeal for peace in which both the Chinese and foreign public were pressed to write or telegraph Chiang Kai-shek direct, urging him to seek terms from the Japanese, was recently spread large over the pages of The Peiping Chronicle. The appeal was well written and might have carried some weight were it not for the fact that the author, Mr. George Gorman, editor of the Chronicle, is in the employ of the Japanese Army.

11. Foreign Aid to China.

According to the Hankow representative of Transocean News Agency, Mr. Shao Li-tze, director of the Publicity Department of the Chinese Military Council, in an interview granted on December 14th made the statement that China is willing to accept assistance from the great powers of the world, but that Chinese resistance to Japanese aggression will continue.

"China realizes the strength of Japan's military force," Mr. Shao is reported to have declared, "and is aware that her own forces are in many respects inadequate. For this reason the Chinese ambassadors have informed the governments of the great powers of the world that China is willing to accept any foreign assistance." Mr. Shao stated, according to the report, that military assistance is to be expected from Soviet Russia because the Japanese penetration into North China constitutes a threat to the Soviet Union. "China is not willing, however, to purchase Soviet assistance at the price of accepting communism, since the Chinese Government through its long years of struggle against communism has revealed its attitude in that respect," Mr. Shao added.

Mr. Shao apparently did not fail to take account of the fact that Transocean is a German news agency, for he ventured the assertion that the Reich is in an especially favorable position to assist China since it enjoys the friendship of both China and Japan, has extensive interests in each, and is in a position to point out to Japan the importance of Sino-Japanese friendship for the peace of the world.

As far as Soviet assistance to China is concerned, reports from Hankow indicate that the Central Government military leaders hope that if the Reds are admitted to the government, Russia may come definitely to China's aid. Most well informed foreign observers, however, are of the opinion that the Soviet will not fight unless Japan attacks first.

Reuter has recently featured stories concerning Soviet pilots in Hankow, stating that these aviators are not only acting as advisers and instructors to the Chinese air force, but have been actually engaged with the enemy. French official sources state that Catholic fathers in Lanchow, Kansu, report the arrival of many Russian planes. An official French source recently expressed the opinion to a member of this office that when the Japanese begin "to receive the bomb on the head" from Soviet planes they will attack Russia in retaliation, and predicted war between Japan and the Soviet before spring.

12. Shantung.

On December 19th, Japanese cotton mills and factories in Tsingtao were burned and dynamited. According to reliable reports, almost all of these properties have been completely destroyed with losses estimated at around Mex.$300,000,000. Except for the burning of the mills and factories, Tsingtao is quiet, and other foreign property has not been harmed.

On the day the mills were burned, Chinese authorities in Tsingtao sank five small gunboats in the entrance to the inner harbor, undoubtedly for the purpose of keeping out Japanese war vessels.

Japanese reports of the affair state that the mills were destroyed on the orders of the Central Government, but whether or not this is true cannot be stated at this time. It is also not known what part, if any, General Han Fu-ch'u, Chairman of Shantung, had in the matter. Although nominally in control of the whole province, Han has little authority in Tsingtao, which is at present garrisoned by the troops of General Yü Hsüeh-chung. Civil authority in Tsingtao is represented by Admiral Shen Hung-lieh. Neither General Yü nor Admiral Shen are on particularly good terms with Han Fu-ch'u. Admiral Shen, incidentally, is now an admiral in name only, as practically the only ships under his command were the small gunboats which have been sunk in the harbor.

Opinion here is divided as to whether the burning of the mills was a clever move or a blunder. Those who think it was a wise step point to the fact that it will force the Japanese to divert a large force to settle the Shantung situation, unless they are willing to accept a decided loss of face. Others, however, feel that the burning was a serious mistake which is certain to bring down retaliatory measures of the severest nature.

The USS Marblehead, a light cruiser, and the destroyer Pope arrived in Tsingtao on the 20th and are standing by to assist in the evacuation of American citizens if such a step becomes necessary.

13. Relations of Germany with China.

Reuter, under date of December 11th, quotes "well informed quarters" as authority for a statement that the Reich will maintain the same relations as in the past with the Government of Generalissimo Chiang Kai-shek, even if this government is repudiated by Japan. A Havas report, also from Berlin, states it has been learned "in semi-official quarters" that Germany will not recognize the new Provisional Government of China, and that Dr. Oscar Trautmann will remain at his post as Germany's Ambassador accredited to Chiang Kai-shek. The use of the words "accredited to Chiang Kai-shek" in this despatch is of interest as possibly indicating that the correspondent was somewhat uncertain in his mind as to just where the future capital of China will be located.

Reuter reported from Berlin on December 2nd that competent quarters discounted rumors in circulation that Germany intended to recognize Manchukuo.

Chinese government circles are reported to be very unsympathetic toward a report that Chinese residents of Singapore are promoting a boycott of German goods on the ground that she is pursuing an anti-Chinese policy. The report comes from Transocean, which is a German news agency. The report further states that the Chinese Foreign Office has sent a telegram to the Chinese Consul General in Singapore directing him to take immediate and energetic steps to put down the boycott.

A point in Sino-German relations which is difficult to understand is why Germany, as a signatory to the Anti-Comintern Pact with Japan and Italy, will permit her nationals to act as military advisers to the Chinese Army. The number of these advisers is not known, but among them are included some distinguished German army officers, of whom the senior is General von Falkenhausen. The German military advisers are not officially accredited to China by their government, but if the Reich did not wish them to be in China it is inconceivable that they would remain. Members of this office who have come in contact with the German military advisers are greatly impressed with their ability. Their value to the Chinese Government at this time can scarcely be overestimated.

In Chinese circles one now hears little resentment expressed against Germany for her signing of the Anti-Comintern Pact with Japan. Chinese who give the subject any thought seem to feel that Germany has long been a friend of this country and that she cannot be considered hostile now even though allied with an enemy of China.

Germany, of course, has extensive business interests in China, and it is not unlikely that the advance of Japan into the interior is causing some anxious thoughts in commercial circles in the Reich.

14. American Ambassador to Move to Shanghai.

A press report of December 20th states that the American Ambassador, now in Hankow, has decided to move to Shanghai in the event that Hankow should be attacked by the Japanese. The report further states that if the Ambassador goes to Shanghai, a representative of the Embassy will be sent to Chungking, where it is likely the organs of the Chinese Government now in Hankow will shortly be moved. Official confirmation of this report has not been received.

For and in the absence of the Military Attache:

David D. Barrett

David D. Barrett
Major, Infantry
Assistant Military Attache

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COMMENTS ON CURRENT EVENTS

December 21, 1937 - January 12, 1938

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1. Anglo-Japanese Relations.

(1) Ladybird Incident Settled

The reply of the Japanese Government to the British note of protest against the shelling of H. M. S. *Ladybird* on December 12, 1937, was handed to Sir Robert Craigie, the British Ambassador to Japan, by Mr. Koki Hirota, the Japanese Foreign Minister, on December 28th. The note, a very lengthy one, explained the firing on the British ship as entirely unintentional and caused by fog and smoke conditions on the river. Sincere regrets and apologies were offered and a guarantee extended that such an incident would not occur again.

Simultaneously with the handing of the note to the British Ambassador, the Japanese War Office issued an explanation of the firing which differed considerably from that given by the Foreign Office. The British Government specifically refused to accept the statement contained in the War Office note, and the London press commented caustically on the procedure of the armed services in publishing a separate note, branding this action as at variance with any recognized methods in use between governments.

The British Government accepted the note of the Japanese Government, as issued by the Foreign Office, thus closing the incident, although the British Government stated in its note of acceptance that its information regarding the circumstances of the attacks, "notably, for instance, on the points of visibility," was at variance with that of the Japanese Government.

Thus another Anglo-Japanese incident passes into history. Shortly after the announcement appeared that the incident had been settled, a French Army officer in high official circles here made the following statement to the Assistant Military Attache: "The action of the United States and British Governments in condoning the recent Japanese outrages will lead inevitably to a catastrophe." It is sincerely hoped that he proves a bad prohpet.

(2) Hirota Appeals to Britain for Understanding.

In the traditional New Year message of the Japanese Foreign Minister to the Japanese people, Mr. Hirota touched definitely on the subject of Anglo-Japanese relations. While emphasizing that Japan had no desire to violate Great Britain's interests in China, he nevertheless stated that Japan could not become reconciled to the attitude of many Britons who did not take a broad view of recent developments in the Orient and criticized Japan's actions.

"We can but hope," said Mr. Hirota, "that at a moment such as this, Britain will understand Japan's stand and place reliance on Japan's professed intention to prevent a Bolshevization of the Far East and maintain peace in the Orient. We also hope that Britain will make every effort to prevent a dislocation of the traditionally amicable Anglo-Japanese relations."

The tone of Mr. Hirota's remarks is at least restrained and in keeping with the official statements of a Foreign Minister, but his inability to concede, even in a small degree, that a great nation like England might possibly be justified in failing to acclaim Japan's recent actions in the Orient is discouraging, although no other attitude could be expected from him under the circumstances.

(3) Japanese Home Minister's Warning to Great Britain.

Interest, amounting in some quarters almost to excitement, was recently aroused by the printing in a Japanese monthly magazine Kaizo of an interview granted by Admiral Nobumasa Suetsugu in December, before his appointment as Home Minister. Striking particularly at England, Admiral Suetsugu stated that China, in the present struggle, was relying on British aid through Hongkong, and as Japan could not stand indefinite resistance from China, the sources of the resistance must be cut off. "If Japan comes to a clash with Great Britain, that cannot be helped. If the British were to cease to assist China, it would be a very good thing for the Orient."

Another startling statement in the interview was that Japan considers it her mission to establish enduring peace in the Orient and that she will overcome all obstacles for that purpose. "This is not alone Japan's mission," said the Admiral, "but the mission of all Oriental peoples, - world peace cannot be realized unless the colored races are liberated from the shackles of the white peoples."

The spokesman of the Japanese Foreign Office told foreign correspondents in Tokyo on January 8th that the views expressed by the Admiral were his own and do not represent the opinions of the Government. The spokesman also explained the statements in a way which toned them down considerably. He expressed the belief that if the interview were read "carefully and in its true meaning," all misunderstanding would be dispelled.

Admiral Suetsugu is reported to have stated that the magazine grossly misquoted him in the interview, but is said to have reiterated the statement that lasting peace in the world could not be realized unless colored races could be freed of the shackles imposed upon them by the whites.

(4) Great Britain Protests Alleged Violation of Hongkong Territorial Waters.

On December 22nd the British Government despatched a note to Tokyo protesting an alleged violation of Hongkong territorial waters on December 11th. The protest states that on that date a Japanese war vessel outside the limits fired upon a Chinese Customs protection cruiser, after which two destroyers and motor boats entered the territorial waters and towed the cruiser away. The note, according to the United Press, asked the Japanese Government for assurances that Japanese war vessels would be instructed to respect Hongkong territory.

(5) London Anxious Over South China Situation.

According to a Havas despatch dated December 24th, much concern is felt in London political quarters over the possibility of an extension of Japanese military operations in Kwangtung Province and the resulting threat to British trade interests in Hongkong.

In this connection, a Briton of good education but decided Leftist opinions recently expressed the opinion to the Assistant Military Attache that the British Prime Minister, Sir Neville Chamberlain, was entirely capable of advocating the trading of recognition of the new Provisional Government in Peking for a guarantee of non-interference with British trade interests in Central and South China.

Sir Hughe Montgomery Knatchbull Hugessen, the retiring British Ambassador to China, is reported by Transocean as having stated in Colombo, through which port he recently passed on his way back to England, that "If England delays much longer in taking action in the Sino-Japanese conflict, she may say farewell to her Far Eastern interests." As Transocean is a German news agency, the report of this apparently unguarded statement is accepted with considerable reserve.

(6) Emergency Measures Revived in Hongkong.

The revival of emergency measures, enforced in 1931, conferring very wide powers upon the Colony's authorities, was announced by the Hongkong Government on January 4th. Under these regulations police powers are increased and certain civil rights considerably curtailed. In addition, censorship on telegrams and letters may be imposed and buildings may be seized "for public purposes." The regulations also provide for requisition of food and fuel, to be paid for at rates determined by Government arbitrators, and for the commandeering in case of emergency of vehicles.

(7) Singapore Maneuvers.

Press reports state that maneuvers on the most extensive scale ever held in that port will be stated in Singapore in February. Twenty-five battleships, so it is reported, and 10,000 troops, including units from India, the Straits Settlements, and China, will participate in the exercises, in the course of which the 15 and 18 inch guns of Singapore's coastal defenses will be fired for the first time.

It seems unnecessary to comment on the significance of these maneuvers at this time.

2. Chinese Leaders.

According to a Reuter report from Shanghai, dated January 7th, Colonel Chiang Ching-kuo, the eldest son of General Chiang Kai-shek who returned to China from Soviet Russia last year, has been appointed Deputy Director of the Peace Preservation Headquarters for the province of Kiangsi, according to Chinese reports. He is said to have assumed office on January 5th.

Colonel Chiang was recently reported in Outer Mongolia on a mission said to be connected with negotiations for the despatch of Outer Mongolian troops to China.

A Hankow report from Chinese sources states that Mr. Hsiao Cheng-ying, a former Mayor of Tientsin, was executed at Sinhsiang, Honan, on December 20th on a charge of treason. Mr. Hsiao was in the United States when the war broke out. He at once returned to China and is said to have acted as an intermediary between Chiang Kai-shek and Sung Che-yuan before the latter left north Hopei.

According to a "Wireless" report appearing in the Peking Chronicle, Mr. Sun Fo, son of the late Sun Yat-sen, arrived in Singapore by steamer from Hongkong on January 5th. Mr. Sun is on his way to Moscow, states the report, on a mission the purpose of which is not disclosed but is generally believed to be connected with enlisting Soviet aid. (Note: There is no news agency by the name of "Wireless." In the Chronicle, use of the word "Wireless" in the date-line of an item means that the news is a radio intercept, usually of a despatch from a newspaper correspondent or news agency to the home office.)

United Press reports from Hankow state that General Ho Ying-chin, now Minister of War, may be appointed as Chief of the General Staff. The reports add, apparently somewhat unnecessarily, that Chiang Kai-shek is to remain as head of the Military Council. Reliable foreign reports from Hankow have been stating for some weeks that General Ho's influence in the government in steadily on the wane. Whether his new appointment, if it materializes, will have any real significance cannot be stated at the present time.

A Domei report from Hongkong on December 28th, as yet unconfirmed, stated that Mr. Wang Ching-wei, Chairman of the Central Political Council of the Chinese Government, and General Chang Chun, Secretary-in-Chief of the Council, had resigned. Japanese sources have also mentioned Mr. Chang Chi-luan, former editor of the Ta Kung Pao, the important Chinese daily which recently suspended publication in Shanghai, as a probable successor to General Chang.

Reuter states that Mr. Yuan Liang, who two years ago left Peking after having served three years as Mayor, has returned to the old capital and may accept appointment under the new regime. Mr. Yuan will be remembered by many foreigners on account of the extensive reconstruction work which he carried out in Peking during his term of office. It was due largely to his energy and ability to handle money without squeezing it all for his own use that many of the most beautiful monuments in Peking are still preserved. If Mr. Yuan is given a post of responsibility and allowed to discharge his duties without undue interference his appointment would be generally welcomed in foreign circles at least.

Kung Teh-cheng, the seventy-second descendant in direct line of the Sage, was recently offered the throne of China, according to a Hankow report from Chinese sources. Mr. Kung, who is now eighteen years of age, recently arrived in Hankow from Shantung. He is said to have refused the offer on the grounds that no descendant of Confucious for

2,000 years has held political office. Such a statement, if it was made, makes it appear that Mr. Kung failed to consider his eminent relative, Dr. H. H. Kung.

Reuter reports from Hankow that Chiang Kai-shek has issued an order forbidding all Government, military, and Kuomintang officials to quit their posts without proper authorization. Such an order reflects little credit upon Chinese officialdom.

Mr. Chen Chueh-sheng, Managing Director of the Peking-Mukden Railway, died in Peking last month. The story in circulation in Chinese circles is that he was poisoned by the Japanese because of his refusal to turn over a sufficient share of the returns from his very remunerative position.

Madame Sun Yat-sen and Madame Kung Hsiang-hsi, sisters of Madame Chiang Kai-shek, are reported to have arrived in Hongkong on December 28th. The source of the report, Domei, states that they have recently been in Sian on work in connection with promoting close relations with Soviet Russia.

3. Maritime Customs.

There have been no developments of importance concerning the status of the Chinese Maritime Customs in areas now occupied by the Japanese Army since our last report on this subject. Negotiations concerning the Customs, particularly in Shanghai, are reported to be going on between the Japanese and British Governments, but as far as is known no definite decisions have been reached.

A general revision of the present Customs tariffs by the Provisional Government is generally believed to be impending. It cannot be predicted at this time with any degree of certainty whether these new rates will be put into effect in Shanghai or other ports outside of North China. A committee has been appointed by the Provisional Government, according to reports, to study the matter of tariff revision.

In connection with the probable impending revision of existing tariff schedules, it will be interesting to note what the effect of the new rates will be upon the smuggling trade which was carried on with the consent, if not the open connivance, of the Japanese military authorities for some time previous to the outbreak of hostilities between Japan and China. Unless a revision of the present tariff schedules admits all Japanese goods free of duty, the smugglers may find that they were better off before the Japanese secured control of the Customs.

In any event, it is not difficult to see that the foreign business men in China and the holders of bonds secured on the Customs revenue are the ones who are going to be most adversely affected by impending changes in the status of the Maritime Customs.

4. Communications.

(1) Closing of the Telegraph Office in Tientsin.

The Tientsin office of the telegraph service of the Chinese Ministry of Communications closed on December 31st last. This brought to an end the history of the longest record of telegraphic service operated under Chinese management. Although telegraph service with China was first established in 1873, the company was operated by Danish interests; while the Tientsin service, established in 1877 through the efforts of Viceroy Li Hung-chang, was opened under Chinese management and has remained so until it passed into the hands of the Japanese dominated Provisional Regime. The staff of the Tientsin telegraph office will remain in the city for some time, winding up the business affairs of the organization.

Telegraph service in Tientsin is now handled by the North China Telegraph and Telephone Administration, the head office of which has been opened in the Japanese Concession. Two branch offices have been opened in the Special Areas. All but the most unimportant personnel of the new telegraph administration is Japanese. According to a recent announcement of the company, telegrams are accepted for the principal foreign countries, and in North China for Peking, Kalgan, Shihchiachuang, Tsinan, Tangku, and cities in East Hopei. No telegrams are accepted for places in Central and South China under control of the Central Government.

All foreign traffic of the company is routed through Hsinking. Letters have already appeared in the Tientsin foreign press complaining bitterly of poor service and exorbitant charges by the new company.

Peking has been without satisfactory telegraph and radio service almost since the outbreak of hostilities. The local telegraph office is still located on the premises formerly controlled by the Ministry of Communications and some of the old staff are still at work, but the service is completely controlled by Japanese and strict censorship has been in effect for some time. Before the war, the R. C. A. was represented in Peking by the Chinese Government Radio Administration, which accepted messages for transmission by R. C. A. from Shanghai. This service closed on July 27th and has not been resumed.

(2) Censors Placed in Offices of Foreign Cable Companies in Shanghai.

On January 5th the Japanese Army installed censors in the Shanghai offices of the Eastern Extension, Great Northern, and Commercial Pacific Cable Companies. Japanese censorship and administrative control had previously been extended to the International Radio Office, formerly the Chinese Government Radio Administration. This administration, as far as Shanghai was concerned, was taken over some months ago by the R. C. A., who operated it on contract. Mr. George Shecklin, Vice-President of the R. C. A., stated in Shanghai on January 5th that his company could no longer carry on the service of the International Radio Office because of the Japanese censorship and control of the revenue of the company.

Japanese censorship of radio and cable communication of course works a particular hardship on foreign press correspondents. A few days ago, Mr. Victor Keen, of the New York Herald Tribune, complained to the Japanese authorities because a cable despatch filed by him had been held up by the censor without his knowledge. Mr. Keen was informed that the action had resulted from unfamiliarity with his duties on the part of the censor and would not occur again.

(3) Reuter reports that an army of 700,000 laborers is now engaged in the construction of a road between Szechwan and Russia, via Kansu and Sinkiang. According to the report, the new road will enable trucks to come from Russia in ten days instead of several months.

Reports have also been received that a motor road will shortly be completed between Yunnanfu and the Burma border. Incentive for the building of both the roads is said to be a desire to facilitate the importation of arms.

(4) Rail Service.

Resumption of rail service between Tientsin and Tsinan is announced. Because of the destruction of the bridge over the Yellow River north of Tsinan, trains must be ferried across. The Chinese apparently made a fairly thorough job of blowing up this bridge, and it may take six months or a year to repair the damage.

If the war were to cease tomorrow, it would still be many months before conditions could be restored to anything like normal on the railroads of China. At the present time it is doubted if there is a single line in China, with the possible exception of the Peking-Mukden, on which anything resembling normal service is being maintained. On this line the service may be considered fairly adequate largely because the public has become accustomed to slow schedules, dirty and crowded coaches, and insulting treatment at the hands of the Japanese military who control the line.

Passenger service has been nominally maintained over the Peking-Hankow as far as Shihchiachuang, and over the entire Peking-Suiyuan line for some weeks, but this may be considered as service in name only. Trains run only in daylight, and the passengers are intolerably crowded in dirty, unheated, and windowless old wrecks of third-class coaches.

On the Chengtai Railway there are said to be only one or two locomotives available for passenger and freight traffic, the rest having been withdrawn to the Tungpu Railway before the capture of Taiyuan.

On the Canton-Hankow line the trip between the two terminal cities now requires three days, - in normal times only twenty-four hours. Colonel Stilwell recently reported conditions on this line as extremely bad for passenger travel.

Report has been made concerning the building of the railway bridge over the Chientang River between Hangchow and Ningpo. This bridge was considered a remarkable piece of engineering construction and had only recently been completed at a tremendous cost, covered as usual by a foreign bond flotation. The bridge was blown up on December 23rd by Chinese troops retreating from Hankow, but the exact extent of the damage is not known. The Chinese, unfortunately, seem to be improving in the art of bridge demolition.

If the Japanese push further south on the Peking-Hankow Railway and drive the Chinese across the Yellow River, the latter will probably blow up the long Yellow River Bridge just north of Chengchow. This structure has suffered much in various past wars between Chinese warlords and has been in a bad state of repair for some years. Its destruction to an extent which would require extended and extremely costly repairs, if not entire replacement, would not be difficult for troops with any skill at all in demolition.

(5) Japanese in the Postal Service Promoted.

Reports from Shanghai state that a Japanese employee of the local post office, who has been connected with the Chinese Posts for twenty years, has been appointed by the Director General of Posts to be Deputy Postal Commissioner in Shanghai. The appointment is said to have been made in recognition of services in keeping the Hongkew Post Office open during the fighting in and around Shanghai. It is also reported that a Japanese accountant of the Post Office in Hankow has been appointed General Supervisor of the Shanghai Post Office.

In North China, except in Chahar and Suiyuan, there has been little interference with the Posts since the outbreak of hostilities, but it is not to be expected that the Japanese can continue to keep their hands off this agency of communication, particularly because of the opportunities which it offers for deserving Japanese job hunters.

5. Diplomats.

(1) New Russian Ambassador Arrives.

Mr. Luganets-Orelsky, the new Soviet Ambassador to China, arrived in Hankow by air on December 26th. The Ambassador flew to China from Russia by way of Sinkiang and

and Kansu. It is reported that he will proceed to Chungking to present his credentials to Mr. Lin Sen, President of the Chinese National Government, on January 18th.

(2) Chinese Ambassador to Russia Returning Home.

Mr. Chiang Ting-fu, the Chinese Ambassador to Soviet Russia, left Moscow to return home by way of Paris on January 9th. According to current report, he will not return to Moscow. Mr. Yui Ming, formerly Director of the Shanghai Office of the Ministry of Foreign Affairs, is expected to reach Moscow in a few days to assume charge of the Embassy.

As Mr. Sun Fo is now on his way to Moscow, it is natural that many reports should be in circulation that he is to be the next Chinese Ambassador to Russia. Statements from semi-official quarters, however, deny these reports, while maintaining a strict silence concerning the real object of Mr. Sun's visit to Russia. It would be no great surprise, however, if Mr. Sun were eventually appointed Ambassador to Russia in spite of the recent denials.

(3) New British Ambassador Leaves Bagdad En Route to China.

Sir Archibald Clark Kerr, recently appointed British Ambassador to China in place of Sir Hughe Montgomery Knatchbull-Hugessen, has left Bagdad for London, where it is stated he will remain for about ten days before starting for China. Sir Archibald Clark Kerr was the youngest ambassador in the British diplomatic service until Sir Hughe Montgomery Knatchbull-Hugessen was made Ambassador to China.

It is reported from London that Mr. R. G. Howe, the present British Charge d'Affairs in China, will remain in Shanghai until the new Ambassador arrives. It had been previously reported that Mr. Howe would leave at once for London to take over the China Department of the British Foreign Office.

(4) Chinese Consuls Compelled to Recognize New Regime.

All Chinese consuls in Formosa and Korea have been compelled to declare allegiance to the Provisional Government of the Republic of China and renounce allegiance to the Chinese Central Government, according to Hankow reports. The Japanese press has played up this action on the part of Chinese consuls as the result of a sincere and spontaneous desire on their part to free themselves from the shackles of the Kuomintang, but it seems reasonable to suppose that they had little choice in the matter.

China has protested against the alleged coercion of her consular representatives by the Japanese Government.

(5) Removal of American Embassy to Chungking.

A Reuter despatch from Shanghai, dated January 10th, states that Mr. Nelson T. Johnson, the American Ambassador to China, is considering the removal of the American Embassy from Hankow to Chungking in view of the imminent extension of hostilities to the Wuhan area, the Lunghai Railway, and the Peking-Hankow Railway.

(6) Removal of British Embassy Personnel to Shanghai.

The British Embassy staff in Peking has for some time consisted of a Commercial Attache, an Assistant Chinese Secretary, and one other Secretary of junior rank. A considerable staff of code clerks, archivists, and other clerical personnel has, however, been maintained. It is now learned that most of this clerical personnel will be transferred to Shanghai this month, leaving only a skeleton staff to carry on the proud traditions of the British Embassy in Peking. Some army and foreign service language students still remain here, but these have practically nothing to do with the work of the Embassy.

6. Economic.

(1) Development of North China.

Articles concerning the economic development of North China and, since the formation of the new Provisional Government, of all China now under Japanese control, continue to fill many columns in the Chinese and Japanese press, but a close examination of these articles reveals very little meat. Most of the articles concern the formation, at some future time, of companies to develop this or that industry, and speak glibly in terms of millions of yen, but in almost every case the plans have not advanced beyond the talk stage.

One definite development, however, appears to have emerged from the muddle in which the plans for the development of China's economic resources seem to find themselves, and that is the decision of the Japanese Government, announced on December 28th (this office read it in a Kokutsu News Agency Tokyo despatch to the Manchuria Daily News), that the South Manchuria Railway and its subsidiary, the Hsing Chung Company (also called the "Kochu Koshi" and "The China Development Company") would not be allowed to take any important role in the development activities, nor would any enterprises be undertaken in the name of either of these two companies. The despatch stated, however, that economic developments already accomplished by these two companies in China would be recognized and that the Japanese Government expected to make use of their technical experience and advice.

The Japanese press for some weeks past has given prominence to accounts of the eagerness with which the South Manchuria Railway has sought the permission of the Japanese Government to assume entire responsibility for the economic development of China, and it has been freely predicted that Mr. Yosuke Matsuoka, President, and all other officials of the company of any importance whatsoever would resign unless the Government acceded to the wishes of the S.M.R. A Tokyo press despatch of December 25th stated that Mr. Matsuoka had in fact resigned, but several days later another report appeared that he had informed General Sugiyama, head of the Cabinet Manchurian Board, that he took no exception to the Government's plan for the development of China, even though it left his company out, and denied that he had submitted his resignation. At present writing it appears that he will remain with the S.M.R.

With the S.M.R. definitely left out of the Government's plans for the development of China, it is not yet known to what organ this most important activity will be delegated. There has been considerable talk in the Japanese press that a joint Sino-Japanese Commission, composed of ten experts from each of the two countries, would be entrusted with the work, but no definite announcement to this effect has as yet been made.

Thus the statement made recently by the Japanese Premier, Prince Konoye, to the effect that Japan's plans for the economic development of North China were still very much up in the air appears to hold good at the present time.

(2) Economic Advantages to be Gained by Japan in North China.

Some interesting observations concerning the economic development of North China recently appeared in an article in the Japan Advertiser (Tokyo), quoted by the Peking and Tientsin Times. This article quoted an English economist, Mr. H. H. Tiltman, who was recently in Tokyo, to the effect that the economic development of North China would require, for the next five years, Yen 3,500,000,000, of which the Japanese could be expected to raise only one-third. Of the balance, Mr. Tiltman thought that one-half could be raised from the Chinese and that the remainder would have to be supplied by foreign capitalists. Mr. Tiltman also thought that the necessity for enlisting foreign capital would materially affect the structure of any new government which the Japanese would establish in North China, and would tend to prevent the development of this area as a military border state as has been done in the case of Manchukuo.

Mr. Tiltman does not believe that the economic position of Japan will be greatly strengthened by control of North China. The most that Japan can hope to obtain, so he thinks, is valuable salt and coal reserves, a firmer grip on cotton production, and some iron. Of these, the salt resources are probably the most valuable because of the comparative ease with which the present production of about 500,000 tons a year can be greatly increased. The tremendous Shansi coal reserves are of course potentially very valuable, but due to transportation difficulties will be of little use to Japanese manufacturers until further railroad construction has been completed.

(3) Money and Banking.

(a) New Central Bank for China.

Since the latter part of December there has been much talk in the press of the impending establishment of a new banking institution to take over the functions of the Chinese Government banks in the area controlled by the Provisional Government. The purpose of the bank, so say the press reports, will be to insure financial stability, as a means to which end it will issue an "incontrovertible, managed currency, to be linked with the currencies of Japan and Manchukuo."

According to the latest press reports on the subject, plans for the formation of the bank have progressed rapidly and a preparatory committee has been appointed. While full details of the plan for the bank have not yet been announced, it is stated that its capital will be fifty million yuan, to be subscribed by Chinese Government and private banks. The following banks have been listed as institutions which will subscribe to the new bank: Hopei Provincial Bank, Bank of China, Bank of Communications, Kincheng Banking Corporation, China and South Seas Bank, Continental Bank, and East Hopei Bank.

Chinese banking circles in Peking generally regard the establishment of the new bank as very likely in the immediate future. Early reports concerning the bank stated that it would be a joint Sino-Japanese enterprise, but the latest news is that it will be purely an organ of the new Provisional Government.

(b) Provincial Bank of Hopei to Reopen Branches in the Interior.

Press reports state that the various branches of the Bank of Hopei in North China which were closed during the recent hostilities are being reopened with the least possible delay.

Notes of the Hopei Provincial Bank are now generally accepted without discount in the Peking-Tientsin area. A Chinese banker recently stated that while these notes had practically nothing behind them, the Government banks and private institutions preferred to accept them because of the financial disturbance which would be caused if the notes should be generally refused. Hence we have the somewhat strange spectacle of the notes of an institution which was practically the private property of a departed military commander who took most of the cash reserves of the bank with him, still accepted at par simply because it is to the advantage of both bankers and the general public that the notes should be kept in circulation.

(c) Chinese Currency Holds Up.

Contrary to the wishes of the Japanese and the predictions of many foreigners, the Chinese currency continues firm. The exchange rate is practically the same at the present writing as it was the day the war broke out. Various explanations are offered for the stubborness with which the currency refuses to fall. One is that the Chinese Government still has plenty of silver reserves in Washington and London, while another explanation states that the position of the Chinese dollar is being maintained by the British banking and business interests in Shanghai, who would lose heavily if it fell. Still another reason advanced for the steadiness of the currency is the strict control exercised by the Chinese banks over withdrawals of deposits. The most likely explanation, however, seems to be that the Chinese public, both in conquered territory and in areas not yet invaded by Japan still has confidence in the Chinese Government, a confidence which is also largely reflected in many responsible foreign financial circles.

While yen notes and some Manchukuo notes are in circulation in Peking and Tientsin, there seems to be no disposition on the part of the Japanese to force their acceptance at par. In isolated instances some yen may have been forced by soldiers or by civilians of the ronin class, but no such instances have come to the attention of this office. In small transactions the Chinese merchants are often willing to accept yen at par, pocketing the trifling loss of about four cents on the dollar for the sake of accommodation.

(4) Chinese Industries Under Military Control.

Reuter reports from Shanghai under date of December 22nd that the Central Government has issued an order in Chungking placing supreme control of the nation's private and public owned industries under control of the Military Affairs Commission. The order, a very long one, states in detail the methods by which wartime control of the economic resources of the country are to become effective. A partial list of the industries to be controlled includes all mines, and all factories producing cement, alcohol, fuel, and transportation equipment. The production of silk and raw cotton, as well as both raw and manufactured foodstuffs, come under the new regulations, which extend even to the production of books and newspapers.

(5) First Shipment of Ore from Lungyen Mines.

According to the Tokyo Asahi, the first shipment of Lungyen iron ore by rail from Hsuanhwa, southeast of Kalgan on the Peking-Suiyuan Railway, was made on December 20th. The shipment of 600 tons was sent by water to a smelter in Japan. The mines are operated by the Kochu Koshi (Oriental Development Company) and have a present capacity, according to the Asahi, of about 200,000 tons a year, a production which the company estimates can eventually be stepped up to one million tons a year.

The Asahi makes much of the shipment as marking a step toward the realization of Japan's ambitions to be self-sufficient in iron production. Actually, however, the mines can assume little importance until smelting facilities are provided nearer the point of production, particularly now that the Peking Suiyuan line is barely able to take care of the military needs of the Japanese Army, let alone of commercial shipments of a commodity like iron ore.

(6) Customs Receipts for 1937.

According to Reuter, the report of the Maritime Customs for the total revenue collected in 1937 from import and export duty, tonnage dues, flood relief surtaxes, and revenue surtax, amounted to Mex. $342,900,000, compared with a total collection of $324,630,000 for 1936. Comparative figures for various important ports are as follows:

	1937	Comparison with 1936
Shanghai	$142,110,000	- $6,760,000
Tientsin	33,390,000	- 2,130,000
Tsingtao	24,310,000	plus 1,950,000
Canton	12,850,000	plus 1,930

The unfortunate consequences of the war are shown by the fact that for the first seven months of 1937, the total collections were $262,260,000, a record for the period which justifies the assumption that had there been no war, the record collections of 1931 ($388,510,000) would have been exceeded this year.

The report further states that the following loans were serviced in full at the cost indicated: British-German (1898), Boxer Indemnity, and 1913 Reorganization Loan, $76,911,000; Consolidation Note of the American Wheat and Flour Loan (1931), American Cotton and Wheat Loan (1933), $8,726,000.

7. Foreign Aid to China.

(1) Foreign Air Personnel.

Definite reports on the amount of aid being given to China in the way of aviation personnel and equipment are difficult to obtain. From the best information available to this office, it is believed that about 200 planes have arrived in China from Soviet Russia and about 100 aviators. Most of the Russian planes and aviators are now in Nanchang.

At present it appears that such foreign flying personnel as is now in China will probably be used, for the time being at least, principally for training Chinese pilots rather than for combat. No reliable reports have as yet been received of foreign pilots engaging in combat with Japanese. Two Americans, a pilot and an engineer, were killed in Hankow on January 4th, but their plane crashed shortly after an ordinary take-off and was not shot down in combat.

Reports from Hankow state that there was much disappointment among the Chinese population of Hankow on January 4th, when during a raid in which a number of Japanese planes bombed the Hankow aviation field, no foreign pilot took the air to fight the attackers. Soviet ships and pilots are reported to have pursued the Japanese planes as they were withdrawing, but none engaged in aerial combat. The Soviet ships are reported to have appeared very fast, much faster than the Japanese planes.

(2) Foreign Volunteers.

The Domei report forwarded in our radio No. 795 is believed to be incorrect as concerns the number of American citizens. It is of course unknown from what source the information was obtained, but the fact that the number of Soviet volunteers was not given as the largest makes it appear that the report was not a pure fabrication. As noted in our radio, no referance is made to the German military advisers, but perhaps the compilers of the report felt that they could not be classed as "volunteers."

(3) Help from the Soviet Red Crescent Society.

Reuter reports in a Hankow despatch of December 10th that the "Red Crescent Society of the U.S.S.R." has sent a check for Mex. $384,200 to the Chinese Red Cross for "the purchase of medical supplies for the use of those who have suffered in the war." This would be considered a sizeable contribution from any country, and particularly from Soviet Russia where the average citizen has little money to donate for foreign charitable purposes.

(4) China's Acceptance of Soviet Assistance.

Mr. Sun Fo, President of the Legislative Yuan, and son of the late Dr. Sun Yat-sen, in an interview granted to a Transocean representative in Hankow on December 17th, made an important statement concerning acceptance of Soviet assistance which should have been commented on in our last report.

According to the report of the interview, Mr. Sun emphasized the statement that even if China were to accept military assistance from the Soviet Union, it would not mean that China has turned communistic. While declaring that acceptance of Soviet help could under no circumstances mean a relinquishment of China's independence and sovereignty, Mr. Sun admitted that the present critical situation of China made it imperative to accept aid from Russia, even at the risk of anti-communist countries regarding this as a hostile action.

It is believed that Mr. Sun made this statement in the hope that it might help to promote China's cause in Germany.

(5) China Places Large Munitions Order.

Reuter reported on January 7th from Shanghai that Chinese quarters had disclosed the fact that China last December placed an order with a foreign country, not named, for $20,000,000 worth of munitions to be delivered via Singkiang and Kansu, and through Yunnan from Indo-China. The items are said to include six 10-inch guns, six 12-inch guns, 18 heavy field guns, and 30 guns of unspecified description, as well as a large number of heavy and light machine guns and anti-aircraft guns. The order is stated to have been placed on a cash and carry basis, two-thirds down and the balance on delivery.

If the report is correct as to the items purchased, it seems too bad that so many guns of large caliber were ordered, for 75's, machine guns, and anti-aircraft guns would be much more useful to China in the guerrilla warfare in which she is reputedly intending to concentrate all her military efforts.

According to Japanese reports, China continues to receive great quantities of arms from the Soviet Union via Sinkiang and Kansu, from European countries via Indo-China and Yunnan, and also through Hongkong and Canton. A Hongkong report recently admitted that the authorities of the Colony permitted the transhipment of materials consigned to the Chinese Government, but that they would not permit even British manufactured airplanes to be assembled in Hongkong to be flown later into China.

8. **Efforts for Peace.**

It was reported from Tokyo on December 31st that the German Ambassador to Japan had received the following peace terms from the Japanese Government for presentation to the Chinese Government through the German Ambassador in China, Dr. Oskar Trautmann:

(1) Conclusion of a Sino-Japanese economic agreement granting Japan participation in China's economic resources, customs, communications, and transport.
(2) Chinese adherence to the anti-Comintern pact.
(3) Stationing of permanent Japanese garrisons in China.
(4) Creation of demilitarized zones in areas specified by Japan.
(5) Formation of an independent government in Inner Mongolia.
(6) Payment of war reparations by China.

As was to be expected in view of their severity, it was reported from Hankow a few days later that these terms had been flatly rejected by Chiang Kai-shek. The hope was expressed by local observers of the situation that perhaps Japan had purposely made the terms very stiff with the idea of later modifying them in the event that the Chinese showed any disposition to bargain. But the unqualified refusal of the peace offer, if it can be called such, left no opportunity for compromise.

The abrupt refusal of these terms presented through the good offices of Germany seems to have brought the Japanese to a final realization of the Chinese determination to carry on the present struggle, and probably prompted the statement made by Mr. Kawagoe, the Japanese Ambassador to China, to representatives of the Japanese press in Shanghai on January 8th that peace negotiations between Japan and the former Nanking Government were out of the question at that time, and that Japan should repudiate the National Government as the central administration of China.

That China, while refusing Japan's terms, had nothing but kind feelings toward Germany for her attempt to act as a mediator is indicated in a United Press despatch from Hankow dated January 5th which stated that high officials of the Chinese Government had thanked Dr. Trautmann for his efforts.

Hard upon the heels of Mr. Kawagoe's statement that peace was out of the question, a statement which sounded rather silly in view of the fact that it was Japan who had just brought up the subject of peace terms, came the announcement from Japan that a decision of the most momentous importance was about to be made by the Government concerning China. This decision, the news of which was ballyhooed to the skies by the Japanese press agencies in China, was made at an emergency Cabinet meeting on December 10th and sanctioned by an imperial council meeting in the presence of the Son of Heaven next day.

The nature of the decision, which has thus far been guarded with a secrecy which seems hardly justified in view of the fact that it must be disclosed sooner or later, will be known long before this report reaches Washington. General opinion here is that it does not involve a declaration of war against China, but is more probably a decision to renounce relations with the Central Government, withdraw diplomatic representation, and possibly recognize the new regime in Peking.

Underneath the smoke screen of bombast which the Japanese press has raised concerning this decision, unbiased opinion, if such exists in China to-day, interprets it as a sign that the Japanese Government is seriously embarrassed by the present turn of events in China. Every indication for some weeks has been that Japan desires peace. This could be seen even in the swashbuckling declarations of militarists such as General Iwane Matsui, the conquering hero of Shanghai and Nanking. And having failed to secure peace, Japan is raising a hue and cry not only to impress her own people and if possible the rest of the world, but also to conceal the gravity of the situation in which she finds herself.

Well informed observers in Peking feel that Japan hoped to have China defeated by now, and had planned, after a few months, to seek a decision once and for all with Russia, probably in the early spring. Now that China refuses to yield and the prospects of defeating her seem much more remote than they did before the fall of Shanghai and Nanking, Japan is on the spot. What she will do to extricate herself will enlist the attention of the entire world in the next few months.

Germany's efforts toward peace, while doubtless not inspired altogether by unselfish motives, nevertheless do her credit. In spite of her adherence to the Comintern pact, Germany's attitude toward China since the outbreak of the war has held her up in a much better light than Italy, whose reaction to the conflict seems to have been expressed principally in bombastic statements from Premier Mussolini which laud Japan to the skies on one hand and threaten and insult England, America, and France on the other. The German attitude, on the contrary, has appeared calm, carefully considered, and dominated by a sincere feeling of friendship for China in spite of her commitments with Italy and Japan.

Germany's failure to recognize Manchukuo may be a small straw in the wind to indicate that perhaps she is not entirely satisfied with her present allies.

9. Panay Incident Settled.

The United States Government on December 24th accepted the Japanese Government's apologies for the *Panay* incident and its assurances that every effort will be made to prevent interference with American interests in China in the future.

This office of course feels great pride in the courage, resourcefulness, and sound judgment displayed by Captain Roberts. It also rejoices in the thought that American seamen, with their ship literally blasted to pieces and sinking under their very feet, manned the machine guns on the deck of the *Panay* and in a hail of bombs and bullets gave the Japanese attackers everything they had; while an American naval officer, so badly wounded that he could not speak, wrote his orders on the deck with a piece of chalk. Surely these are memories which will thrill the heart of every red-blooded American for years to come.

On the other hand, if the Japanese have a fraction of the chivalry with which they are often credited, they can take little pride in the action of their fliers in bombing what was in effect a defenseless ship, and in later trying to hunt down mercilessly the still more defenseless survivors of the tragedy.

10. Local Conditions.

To the foreigner, the atmosphere of Peking seems very peaceful, but indications are not lacking that the Chinese are living under what amounts to a reign of terror. It was learned on December 27th that a Swiss lady, the wife of a Chinese Tsinghua University professor now in South China, had been held under detention in her own house for some days, while a Chinese lady living with her had been arrested and taken away on unnamed charges. According to press reports, the Swiss lady was held under such close surveillance that she had to depend upon friends for food supplies. She is still under surveillance, but the restrictions placed upon her have been relaxed to some extent.

Recently, two Chinese bankers, both well known in the city, and a former official of the Chinese Eastern Railway were arrested on unnamed charges and held in the headquarters of local Japanese gendarmerie for several days. As far as is known no charges were ever laid against them, and the Japanese are said to have admitted later that they had been misled by the allegations of an informer who wished to harm these particular Chinese for personal reasons.

The Chinese head of the Chung Te Academy, a school maintained by the local Church of England Mission, was recently arrested and held in custody for a day during which he was closely questioned. This arrest is also believed to have been caused by the dirty work of an informer, as no charge was ever laid against the school principal.

An interesting sidelight on conditions near Peking is furnished by the reports concerning a number of hsien magistrates who were recently assigned to districts in Hopei Province after having undergone careful examination in Peking to insure that they had no communistic tendencies. The number of these magistrates out is reported to be over a hundred, and many were assigned to districts in which no Japanese troops are stationed. According to reports believed reliable, not one of these hsien magistrates was able to assume office except a few whose place of duty was in cities garrisoned by Japanese troops. Lurid stories, believed to be mostly grossly exaggerated, are told of crucification, torture, and other misfortunes visited upon many of the magistrates by an indignant and rebellious populace.

Reports from missionaries and other qualified observers support the conclusion that in Hopei Province, outside of the Peking and Tientsin areas, the railway zones, and a few other areas in which strong Japanese garrisons are located, a state of virtual anarchy exists. Conditions, however, vary in different localities. Some districts are reported in the control of so-called Red troops who treat the people fairly well. In other districts the only control is exercised by bandits or irregulars who oppress and exploit the people in every possible way.

Domei reports that plans are under consideration to open the former government universities in Peking, not one of which is now in operation. Considering the state of higher education not only in Korea and Manchukuo but in Japan itself, the future of these institutions, even if they are permitted to open, seems anything but bright.

11. Mongolia.

(1) Composition of the New Mongol State.

At the time Paragraph 23 of our No. 9606 was written, reporting the formation of the new Mongol state, some facts concerning the composition of the state were not known. It has since been learned that the new state is a federation of three autonomous regimes; those of South Chahar, North Shansi, and Inner Mongolia.

(2) The Meng Chiang Bank.

A Kalgan despatch of the Kokutsu News Agency states that the Meng Chiang (Mongol Border) Bank opened for business on December first with an authorized capital of 12,000,000 yuan, of which 3,000,000 has been actually paid up. A digest report of the reported balance of the bank on its first day of business accompanies this report.

Some of the items listed in the Kokutsu report as assets of the bank look somewhat dubious. One of these is carried as "suspended payments," concerning which a rather ingenuous note of explanation states that these include some 500,000 yuan "advanced compulsorily to Ma Chan-shan and other warlords." This makes the "suspended payment" account look very much like sums paid to warlords to encourage them to move to different localities. In Chinese financial circles such payments are sometimes referred to under the euphemistic name of "k'ai pa fei" ("pull-up-stakes expenses").

(3) Kochu Company Granted Monopoly in Mongolia.

A Kalgan despatch to the Tokyo Nichi Nichi states that the right to develop Inner Mongolia, apart from North China, and to operate the Lungyen iron mines has been obtained by the Kochu Koshi (Hsing Chung Company). This report serves to emphasize the fact that Chahar and Suiyuan are not considered as a part of North China, a circumstance which is said to irk considerably General Count Terauchi, Commanding the Japanese Forces in North China, in other words in Hopei, Shansi, and Shantung.

(4) Teh Wang Visits Manchukuo.

Prince Teh, Vice-Chairman of the newly formed autonomous Mongol state (see our No. 9606, par. 23), arrived in Mukden en route to Hsinking on December 23rd. Prince Teh headed a mission whose alleged purpose in visiting Manchukuo was to promote good feeling between that country, Mongolia, and Japan. Later reports state that in Hsinking Teh Wang was received in audience by the Emperor, and that he also called on General Ueda, the Japanese Ambassador to the new state, to pay his respects.

(5) Communications Concern for Mongolia.

Domei reports that the new Mongol state will shortly form a telephone and telegraph company, which will also control the postal service, to be operated as a Sino-Japanese joint enterprise with a capital of 15,000,000 yuan. This seems a great deal of money to be raised in a state as impoverished as this one. But millions count for little - on paper.

12. Nanking.

(1) American Embassy Reopens.

Mr. John Allison, until recently American Consul in Tsinan, and Mr. James Espy of the American Consulate General in Shanghai, arrived in Nanking on the USS Oahu on January 6th and reopened the American Embassy next day. On the evening of their arrival they were entertained at dinner by Mr. Kiyoshi Fukui, the Japanese Acting Consul General in Nanking. This was the first "diplomatic dinner" in Nanking since Japanese occupation.

Mr. Allison reports that all Americans who were in Nanking during the fighting are safe and all Embassy property undamaged. Property of American private citizens in Nanking, however, even though supposedly protected by official seals, has been looted in many instances.

(2) Japanese Army runs Amuck in Capture of Nanking.

From the reports of foreign observers whose reliability and powers of observation are not to be questioned, it cannot be doubted that the Japanese Army acted more like a horde of savages than a disciplined force after entering Nanking on December 12th. An American newspaper correspondent, eye witness to the acts of the Japanese Army at this time, has personally recounted his observations to the Assistant Military Attache. He states that Chinese soldiers and civilians alike were butchered indiscriminately. As far as he knows, no prisoners were taken. Even the police who remained in the city after the Chinese troops had evacuated in an attempt to preserve some semblance of order, were slaughtered without mercy. Foreign property, even though plainly marked with official seals and notices was plundered in many instances, often with apparently deliberate intent.

Conceding that the task of mopping up Nanking after its capture required swift and decisive military action, there seems to be no excuse for soldiers of a supposedly civilized power indulging in an unrestrained orgy of murder and looting.

If the Japanese high command is ashamed of the way the forces behaved in Nanking, and there have been reports to this effect, it would seem that the only explanation which could be offered is that the troops got out of hand, an admission of traits of savagery which inevitably tends to bring down on Japan the censure and contempt of decent persons.

(3) Autonomous Regime in Nanking.

An autonomous commission for the government of Nanking was set up on December 24th under the chairmanship of one Tao Hsi-shan, described as " a sixty-one year old philanthropist."

13. The New Government.

(1) Various Items of Interest Concerning the New Government.

The Peking and Tientsin Times claims that Hopei is to be divided into four administrative areas, of which the

East Hopei Autonomous Regime will form one. The other three areas are to be called Pohai, Chinan (South Hopei) and Paoting. The provincial capital is to be set up in Tientsin.

The Commander-in-Chief of the Japanese Forces in North China, General Count Terauchi, has issued a proclamation urging all Chinese in territory occupied by Japanese troops to support the Provisional Government of China, and threatening dire punishment to those who oppose it.

It was announced on December 23rd that the new government will continue to collect income tax in the same manner as provided by the laws of the Central Government of China.

Mr. Masayuki Tani, the Japanese Minister to Austria, is now en route to China on a secret government mission. According to reports, he will become the chief diplomatic representative of Japan to the new government.

Domei reports that Mr. Shigeo Ohtatsu, a former member of the General Affairs Board of Manchukuo, has been appointed an administrative adviser to the new government and has left for Peking. Mr. Kiichi Sakatani, a director of the South Manchuria Railway Company, is said to be slated for a post as financial adviser.

On December 22nd, Reuter published a list of former officials who had arrived in Dairen from the south of China, en route to Peking to seek jobs in the new government. All of those mentioned have, as former officials, at one time or another fed at the public trough, but no outstanding names were noted.

A recent report from Tokyo states that a formal "Government of the Republic of China" will soon replace the present "Provisional Government of China." This is what the Chinese call "huan t'ang, pu huan yao," "changing the solution but leaving the ingredients of the dose the same."

Mr. Yin Tung, former Managing Director of the Peining Railway, who played a prominent part in the negotiations concerning the Tangku Truce Agreement, will get a good job with the new government, says Domei.

The Peking Peace Preservation Commission wound up its affairs and went out of existence on December 31st, which provided an excuse for a farewell luncheon party with two hundred guests invited on December 27th.

Major General Kita told the foreign newspaper correspondents of Peking on December 30th that he was delighted to find the new regime in accord with his ideas as to the best form of government for North China. As he is generally known as the father of the new government, the statement sounded a trifle flat. General Kita also said, "The Provisional Government of China will never repudiate foreign loans." He did not state, however, that it would see to their servicing from the Customs revenue.

(2) The "New People's Society."

Announcement of the formation of the "Hsin Min Hui ("New People's Society") was made on December 24th. The announced purposes of the society are the extirpation of communism, the establishment of a new national and social order based on justice and virtue, and the promotion of the welfare of the "peepul."

All of which sounds very fine, but general opinion is that the Hsin Min Hui is nothing more or less than a North China counterpart of the Manchukuo Concordia Society, an organization designed to further the interests of the Kwantung Army. The Hsin Min Hui will doubtless serve a similar purpose in this area. Publicity concerning the new society states that instead of advocating "San Min Chu I," ("Three People's Principle") of the hated Kuomintang, it stresses "Hsin Min Chu I," ("New People's Principle"), a play on words which sounds fine and means nothing.

A well informed, American educated Japanese friend of the Assistant Military Attache, a gentleman of decidedly conservative if not reactionary ideas, recently made a succinct and interesting remark about the Concorida Society which probably applies equally well to the Hsin Min Hui. "The Concordia Society," said this Japanese, "is a lot of hooey."

A feature of the Hsin Min Hui is the Hsin Min Academy (New People's Academy), established by the society for the purpose, so it is stated, of training college graduates for civil service under the new government. The Academy was opened on January 10th by Mr. Wang Keh-min, who as the head of the new regime is concurrently Principal of the Academy. The faculty of the Academy includes both Chinese and Japanese and the curriculum of studies, as announced by Domei, sounds impressive. It includes Oriental Political Science, Administration, "Officiology" (whatever that is), Finance, Economics, Law, History, and the Japanese language.

(3) New Mayors of Peking and Tientsin.

A mandate was issued by the Provisional Government on January 6th appointing General Yu Chin-ho Mayor of Peking and concurrently Chief of Police. General Chiang Chao-chung, the former Mayor of Peking, remains a member of the government but has no job. The new mayor is well known here, having been Director of the Peking Bureau of Public Safety about two and one-half years ago. As far as is known, the only reason for the appointment is a possible desire to replace General Chiang with a younger and more capable man. Whether General Yu Chin-ho will be able to live up to General Chiang's reputation as a good man on the "bottle front," as the local Japanese Army press contact officer so aptly puts it, remains to be seen.

Simultaneously with the appointment of a new mayor for Peking, the Provisional Government announced Mr. Pan Yu-kwei as Mayor of Tientsin. Mr. Pan has been Chief of Police of Peking for some months. The reason for the appointment of Mr. Pan is said to be a desire to get hold of a share of the Tientsin Customs receipts, which Mr. Kao Ling-wei, the recently relieved Mayor of Tientsin, is said to have refused to divide with the local authorities. Mr. Kao will now be free to devote himself exclusively to the job of Governor of Hopei.

(4) Status of East Hopei.

While it is generally understood that the East Hopei Autonomous Regime has been incorporated into the government of Hopei Province under the new Provisional Government of China, no formal announcement to that effect has come to the notice of this office. It was reported here on December 27th that Mr. Chih Tsung-mo, Chairman of the Chi Tung (East Hopei) regime, was to be given a post of importance in the new government. Pending receipt of any information to the contrary, it may be assumed that the autonomous regime will not be heard of again as an independent government.

It was announced in Tokyo on December 26th that the Tungchow incident of July 29, 1937, when about two hundred Japanese subjects, mostly prostitutes, drug peddlers, and procurers, were massacred by mutinous peace preservation forces of the East Hopei Autonomous Regime, has been satisfactorily settled. The main points in the settlement agreement are stated as the payment of an indemnity of Yen 1,200,000, an official apology by Mr. Chi Tung-mo, head of the East Hopei Government, and the erection of a suitable monument to the souls of the departed. It is generally believed that settlement of the incident was effected just prior to the dissolution of the East Hopei Regime.

14. Propaganda.

The Assistant Chief of Staff, G-2, is respectfully referred to page 115 of the January first issue of The China Weekly Review for an account of the most stupid piece of Japanese propaganda which has come to the attention of this office. The China Weekly Review does not print the item in full as it appeared in The Japan Advertiser, quoted from the Nichi Nichi. According to the Advertiser version, Lieutenant Mukai's blade was damaged in the competition because he cut a Chinese completely in half, helmet and all. The Advertiser story also includes a statement from Lieutenant Mukai, obtained from him on the slopes of Purple Mountain, to the effect that no shots could strike him as long as he held his Samurai blade on his shoulder.

(2) Domei's Unique Christmas Card.

Reuter acknowledges the receipt of a Christmas card from Domei News Agency in the form of a folder with Christmas greetings on the first page, and fourteen other pages devoted to an attack on Chinese warlords and communists, together with a lengthy explanation of Japan's motives in the war.

15. Reorganization of Chinese Central Government.

The reorganization of the Central Government, reported in our radio No. 788, may appear on the surface as a victory for the conservative elements in Hankow and Chungking, because of the rightist tendencies of the figures who seem to have gained influence by the realignments affected. In well informed Chinese circles, however, which circles experience has found are almost always wrong concerning military affairs but very often right on matters of politics and economics, the opinion is freely expressed that the Chinese Government is now more Red in tinge that it has been since the days of the Soviet domination in Canton and Hankow in 1926 and 1927. The great difference between the situation as it existed then and now, however, is the fact that the present Red influence is Chinese, not Russian, and it is generally conceded that the Reds are acting very decently.

Admission of the Reds to an equal share of power in the Military Affairs Commission, and to an equal share of responsibility for carrying on the war, is generally admitted, even if not broadcasted in official announcements from Hankow. The other parties in the Military Affairs Commission are the Southwest (Kwangtung and Kwangsi) and the Kuomintang, meaning Chiang Kai-shek and those close to him.

Unmistakable signs of the increase in power of the Reds in Hankow and Chungking are the recent establishment in the former city of an official organ of the Chinese Communist Party, The New China Daily News; and the announcement, reported by Reuter as coming from the Central Political Bureau of the Chinese Communist Party, that the Seventh National Congress of the Chinese Communist Party will shortly meet, presumably in Hankow, to consider important agenda which it is hoped will result in an improvement in the status of the Party and a closer degree of co-operation with the

Kuomintang in carrying on the war. Such things could never have happened in the capital of China a year ago.

A Transocean News Agency representative in Hankow recently reported it as his opinion that the Chinese Reds were definitely playing square with the Central Government in that they had temporarily renounced their program of confiscation of private property and the overthrow by force of the present Government of China. This item appears significant because Transocean is a German agency.

The rise of the Red influence in North China, in the areas to which Japanese military power does not extend, has been previously commented on in this report. Thus the net result of Japan's "holy war" to insure the peace of the Orient by stamping out communism in China has apparently been to place the Chinese Reds in a position many times more favorable than they could ever have hoped to attain under the Chinese Government as it existed before the outbreak of hostilities.

16. Russia.

(1) Karakhan Shot.

It appears a virtual certainty that Mr. Leon Karakhan, the first Soviet Ambassador to China and recently Ambassador to Turkey, has been executed on charges of being a counter-revolutionary.

American Army officers who served in China in 1927 and 1928 will doubtless remember Mr. Karakhan's impressive appearance and his sinister reputation as an arch-plotter of Bolshevik intrigue against western nations. It will be hard for such persons to think of him as a counter-revolutionary.

(2) Temporary Fisheries Agreement Signed.

A protocol continuing for one year the temporary arrangement now in effect concerning fishing activities in Siberian waters was signed by the Soviet and Japanese governments on December 29th. Japan is reported to be continuing her pressure for a permanent settlement of the issues involved. As previously reported, a treaty on this subject was ready for signature when the Sino-Japanese war broke out, at which time Russia refused to sign, although the instrument had been initialled by representatives of both governments.

(3) Russian Help for China.

Havas, a French news agency, sent out a despatch from Paris on January 2nd in which the opinion was expressed that Moscow is preparing for full support of China against Japan. The same agency from the same place one week later ventured the opinion that Stalin is reluctant to incur the risk of an attack against Siberia and is likely to be satisfied with sending only war materials to China.

This office is inclined to subscribe to the latter of these two contradictory statements.

17. Shanghai.

In Shanghai tension between the authorities of the Settlement and the Japanese Army has increased since our last report, and a determination on the part of the latter to acquire control of the Settlement seems to become more and more apparent as time goes on.

The principal cause of the tension has been a series of bombing incidents, happily without serious consequences, too numerous and unimportant to warrant capitulation in detail. It is probable that the incidents have been perpetrated by Chinese with deliberate intent to force Japanese action in the Settlement and thus bring down possible foreign intervention on the side of the Chinese in the war.

It must be admitted in fairness that the Japanese military has acted with more restraint in this tense situation than might have been expected under the circumstances. After all, the Japanese Army shed much blood and the Japanese Government expended much treasure in taking Shanghai. One of the usual prizes of war, even undeclared war, is control of conquered territory, and now that even foreigners in Shanghai are insisting that the Settlement is Chinese territory it would not be strange if the Japanese Army should feel irritated that the presence of a body of foreigners, to wit the government of the Settlement, should interfere with their freedom of action in an area which they have conquered in more or less fair and open fighting.

On December 27th, Vice-Admiral Hasegawa, Commander-in-Chief of the Japanese Fleet in Chinese waters, announced that severe punishment would be meted out to persons who committed acts against Japanese. Such acts were specifically listed and included spying, damaging military communications and public works used by the military, stealing Japanese arms and ammunition, concealing enemies of Japan, and other acts considered hostile to Japanese interests. This announcement created considerable stir lest application of its provisions in areas immediately adjacent to the Settlement might affect the rights of foreigners enjoying extraterritorial privileges.

Admiral Hasegawa's dire threats, however, failed to prevent several further incidents, all of a minor character, but all lumped by the Japanese under the head of outrages threatening their lives and property. The continued recurrence of these incidents, with the danger which they involved of precipitating Japanese military action in the Settlement, may have prompted the action taken by the Shanghai Municipal Council on January 2nd, when it issued the momentous announcement that any person committing offenses against armed forces in the Settlement would be liable to be handed over for punishment to the force concerned. This announcement of course caused excitement in foreign circles and brought an immediate protest from the Chinese Government on the grounds that it was a pro-Japanese action constituting a violation of China's sovereign rights.

Japan further showed her hand in relations with the Settlement on January 4th in a set of "proposals" to the Municipal Council. These "proposals," interpreted in many circles as a virtual ultimatum, embodied the following recommendations: (1) An increase in the number of Japanese members in the Settlement police and "improved treatment" for them; (2) The appointmont of Japanese to important posts in the administrative organs of the Council; (3) An increase in Japanese personnel employed by the Council.

The reason behind these proposals was stated as "inefficiency on the part of the Council to control anti-Japanese incidents." The Council has acknowledged receipt of the proposals and has promised a careful study of the recommendations contained therein, but has not yet acceded to any of them.

The fairly good record of restraint previously maintained in the Shanghai area by the Japanese Army has recently been badly marred by the beating, on three separate occasions, of British members of the Shanghai Municipal Council Police. These acts, which appear entirely unjustified, and further to have involved violation of the Settlement boundaries by Japanese soldiers, have brought forth vigorous protests from the British Commanding General in Shanghai and the officials of the Municipal Council. Reports of the beatings have been played up prominently in the British press at home, but as yet no protest on the subject has been presented to Japan by His Majesty's Government.

The question of the conflicting interests of the Japanese Army and those of foreigners residing in the International Settlement is a most complicated one, involving a number of considerations from both the legal and historical standpoint. That the question of these interests is causing decided concern in London and Washington is generally admitted. Future developments will be watched with the greatest interest, if not anxiety.

To sum up the situation in brief, there seems to be practically no chance that friction between the Japanese Army and the foreigners residing in the Settlement will decrease, and the prediction seems justified that further extension of Japanese authority over this area may be expected.

General conditions in Shanghai seem to be gradually improving. The return of foreigners to areas outside the Settlement has been permitted under restrictions which are becoming less irksome as time goes on. As far as economic conditions are concerned, British business men, who are the most vitally concerned in the situation, generally predict that there is little hope for much improvement in the near future, but declare their intention of sticking it out in the hope, amounting almost to virtual certainty, that good times must eventually return.

18. Tsingtao.

Tsingtao was occupied by a Japanese naval landing force on January 10th. The occupation was effected without resistance and without firing a shot. Conditions of peace and order are reported prevailing in the city since the occupation.

All Chinese troops were out of the Tsingtao area by January first, by which date Admiral Shen Hung-lieh, the Mayor, and General Yu Hsueh-chung, commanding the 51st Army which had garrisoned the city and its environs, had already left. During the period between the departure of Chinese troops and the arrival of Japanese forces, order was maintained in the city by the police, directed by a German adviser to the Bureau of Public Safety, and a combined foreign unarmed force composed principally of Russians, English and Germans. Americans were discouraged by their Consul from participating in the activities of this temporary civilian peace maintenance body. Except for considerable looting, which did not extend to foreign property other than Japanese, there was little disorder during the interim period.

Previous to the occupation of the city, Japanese planes dropped leaflets in which were printed requests, couched in polite terms, for foreigners to stay out of certain specified areas.

Some Japanese officers of the landing force which took over the city are reliably reported as surprised to find the destruction of property in the city less extensive than they had been led to believe from the accounts appearing in the Japanese press at home and in China. Other reports state that Japanese houses, shops, and public buildings are largely undamaged but that they have been thoroughly looted.

Fear lest the Tsingtao police should come to harm at the hands of the Japanese after their landing has been allayed by a reported guarantee of protection from the Japanese commander.

Reuter reports from Berlin that the occupation of Tsingtao, a former German colony, has made a deep impression and has aroused speculation as to whether it will be the prelude to Japanese activities affecting Hongkong. Reuter quotes the Berlin newspaper Angriff as follows: "Will the British watch with folded arms the loss of Hongkong? That is the most critical question in international politics today. Great Britain's rearmament came too late, and America's has come still later."

For and in the absence of the Military Attache:

David D. Barrett
David D. Barrett
Major, Infantry
Assistant Military Attache

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COMMENTS ON CURRENT EVENTS

January 13—February 1, 1938

RECEIVED G/2 W. D. MAR 10 1938

1. Anglo-Japanese Relations
2. The Chinese Maritime Customs
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6. The New Government
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8. German Attitude Toward China
9. Hainan Island
10. Chinese Leaders
11. Shanghai
12. Shantung
13. Szechwan
14. Economic

1. Anglo-Japanese Relations.

(1) Improvement in Relations between Japan and Great Britain.

The general tone of the Japanese press, as far as it can be determined from excerpts printed in papers coming to the attention of this office, as well as the tone of the Japanese-controlled papers in China, seems to indicate that there is some truth in recent reports that the Japanese Government has requested its officials, both at home and abroad, to moderate anti-British utterances. Not so many fulminations against Great Britain from official sources, as well as from less responsible quarters, have appeared of late.

Official circles, however, do not fail to keep before the Japanese public and the world in general the fact that many causes for tension exist between Japan and Great Britain. This was indicated by a statement of the Foreign Minister, Mr. Hirota, in the Diet on January 24th, in which he said that Japan must watch the attitude of the powers having special relations with China and expressed the opinion that it was necessary to make such powers fully understand the new realities in the Far East, which sounds very much like a polite way of saying that Great Britain and other powers must accustom themselves to Japan's commanding position in China.

Some of the sting of future remarks from the Japanese Government on the subject of the supply by Great Britain of munitions to China will be taken out by a statement of Mr. Hirota's, also made on January 24th, that munitions of British manufacture imported through Hongkong represented a mere fraction of the war materials imported by China. Mr. Hirota did not mention the fact that even if the munitions of British manufacture are only a small proportion of those now being received by China, the bulk of the war materials from other sources is still being delivered through Hongkong, which may be an indication that the Japanese Government has no desire to aggravate relations with Great Britain at this time.

(2) General Matsui Presages Conflict between Japan and Great Britain.

Whatever may be the attitude of the civil end of the Japanese Government toward Great Britain at the present moment, the feeling of the Army, or at least of one very important personage therein, was expressed in no uncertain terms by General Iwane Matsui, Commanding the Japanese Expeditionary Forces in Central China, in an interview with Mr. H. G. W. Woodhead, British journalist, in Shanghai on February first.

Among several extremely interesting, if not startling, statements made by General Matsui in the course of the interview—a very long one, was the following: "Considering the growth and development of our own country, it is inevitable that Japan should expand in China. Lack of appreciation of this situation on the part of Great Britain may, I am afraid, lead to an unnecessary conflict between the two countries."

General Matsui pointed out that no doubt of Great Britain's ardent support of the Kuomintang regime could be entertained in view of the way she had supplied China with arms and supported the Chinese currency in such an effective manner that the exchange rate continued to hold up.

Asked why Japan seemed to be concentrating her resentment on Great Britain instead of the United States when the policies of the two countries in China were the same, General Matsui plainly stated that while their policies might be identical, the reaction of the Japanese people toward the two nations was entirely different.

General Matsui did not hesitate to imply that to all intents and purposes he was the Japanese Government in Central China at the present time, as is indicated by his statement concerning the Customs. "Originally I had it in mind," said the General, "to take over the Shanghai Customs right away, but as the Panay and the Ladybird incidents occurred, I thought it better to treat the question on more moderate lines, and to have the matter talked over with the Customs authorities on a more conciliatory basis. Negotiations have been going on, but it seems to me that they are taking too much time and, if so, I may have to revert to my original attitude."

Indications of the reaction, if any, of the British Government to General Matsui's statement have not yet appeared. It seems unlikely that any particular notice will be taken of them. If Great Britain should demand an explanation, Japan may, as she has often done in the past, disown the statements of General Matsui as not representing the official views of the Japanese Government.

The significance of General Matsui's interview with Mr. Woodhead lies not in what he said, but in the fact that a military commander of a nation in which the civil is supposed to maintain at least a shadow of power could make such statements and get away with it.

(3) Great Britain not to Surrender Right to Navigate the Yangtze.

Foreign press reports stated on January 11th that the Japanese authorities in Shanghai had served notice that the Yangtze would be closed to navigation by foreign vessels. Next day a Reuter despatch from London quoted "an authoritative spokesman" to the effect that Great Britain could not admit that Japanese had any right to interfere with British shipping on the Yangtze. It was later stated by the Japanese authorities in Shanghai that the intent of the notification was not to forbid foreign ships the right to navigate the Yangtze but merely to cause them to give prior notice of their movements in order that they might be duly protected.

The incident gives the impression that the Japanese sent up a trial balloon to watch the reaction of foreign nations to a virtual closing of the Yangtze to navigation, and as the result of the venture decided to go slow in the matter for the time being.

2. The Chinese Maritime Customs.

While reports from London state that the matter of the status of the Chinese Customs is still under negotiation between the governments of Great Britain and Japan, the latter continues to consolidate her control of this most important organ of the Chinese Government. As far as the status of the customs in Shanghai is concerned, nothing need be added to the remarks of General Matsui on this subject, quoted above under "Anglo-Japanese Relations."

Recent developments of the utmost importance have been the reduction of the customs tariffs and the closing out of the "special trade," the polite term for smuggling, in North China. The smuggling business was wound up on January 20th with the closing of the special trade customs stations on the east coast of Chitung (East Hopei) by order of the East Hopei Autonomous Government.

The new customs rates were announced in an order of the Provisional Government of the Chinese Republic promulgated in Peking on January 21st, to go into effect at once. The new rates, with the exception of total exemptions and the rate on rayon, represent reductions of from twenty to fifty percent as compared with the former national tariff. Farm machinery and seeds are admitted free. Wheat flour and rice remain on the temporary free list, and the duties on other foodstuffs are generally lowered. The new duty on rayon is 31 gold units per 100 kilos as compared with the former rate of 120. Fifty percent is taken off sugar and twenty percent off gasoline and kerosene.

The new rates are in general a little higher than the duties levied by East Hopei under the "special trade" agreement, but freedom from certain special charges formerly exacted by this government makes them about the same. It is significant, however, that the duty on rayon piece goods and cigarette paper, which were formerly smuggled in in huge amounts, remains as before.

The new rates, according to the announcement of the Provisional Government, are to apply in Shanghai, and the customs authorities in that port have been ordered to enforce them. The Ministry of Finance in Hankow has directed Sir Frederick Maze, Inspector General of the Maritime Customs, to order all inspectorates of Customs throughout China not to enforce the new tariff. This order is of course a mere gesture.

The Japanese have taken over the Tsingtao Customs and a Japanese officer of the Chinese Maritime Customs has replaced the former British incumbent as Acting Administrative Commissioner. It is not believed that foreigners who belong to the commissioned staff of the Maritime Customs are in danger of losing their jobs, for the present at least, in areas where the Japanese are now in control. They will simply work under a Japanese instead of a Chinese administration.

3. Communications.

(1) North China Bureau of S.M.R. Moves to Peking.

Completion of the move of the North China Bureau of the South Manchuria Railway from Tientsin to Peking was announced on January 26th. Offices of this Bureau have been opened in the large building formerly occupied by the Peking-Hankow Railway Administration.

The move of these S.M.R. offices to Peking is generally taken to indicate, in spite of some reports to the contrary, that the company will play an important part in the economic development of North China, particularly in the rehabilitation and construction of railways. Reuter reported on January 27th that the Peking-Suiyuan Railway is to be reorganized under S.M.R. control.

(2) Temporary Bridge over Yellow River in Shantung.

Domei announces that Japanese military engineers have completed a temporary bridge over the Yellow River just north of Tsinan. This is reported to have been built alongside the Tsinpu Railway bridge which was dynamited by retreating Chinese troops in the latter part of December and badly damaged. The Japanese state that through train service between Tientsin and Tsinan will be restored on February 11th, anniversary of the accession of the Emperor Jimmu.

If the temporary bridge proves a success it will be a considerable monument to the skill of Japanese military engineers. These troops may later be afforded an even better opportunity to show their ability if the Chinese retreat south in Honan and blow up the long and very shaky bridge which carries the tracks of the Kinhan Railway over the Yellow River north of Chengchow.

(3) Motor Trip from Hankow to Canton.

On January 29th two Englishmen arrived in Canton from Hankow, having accomplished the 550 mile journey in two days by automobile. This would not be considered bad running time in the United States.

4. Chinese-Soviet Relations.

(1) Soviet Ambassador to China Presents Credentials.

Mr. Ivan Trofimovich Luganets-Orelskey (there seem to be no diplomats named Jones) presented his credentials to Mr. Lin Sen, Chairman of the National Government, in Chungking on January 23rd. It is reported that on his way back from Chungking to Hankow by air his plane was forced down at Ichang just before a Japanese air raid and the Ambassador had a narrow escape from death.

(2) Dr. Sun Fo's Mission to Russia.

Reports from Moscow state that complete mystery shrouds the goings and comings of Dr. Sun Fo, Chairman of the Legislative Yuan, who arrived in the Soviet capital on January 17th. Chinese official circles in Hankow will divulge nothing of the purpose of his visit, but are emphatic in denials that he will be appointed Ambassador to Russia.

It seems a foregone conclusion that Dr. Sun went to Moscow in an attempt to persuade the Soviet Government to render more substantial aid to China than she has in the past, hence it is to be expected that the greatest secrecy will be maintained concerning his activities. Reports are to be expected, of course, from Japanese sources concerning Sino-Russian agreements reached as the result of Dr. Sun's visit. Domei came out with such a story on January 27th, quoting the Berlin *Volkische Beobachter* as authority for a statement that the following principles had been agreed upon as a basis for Sino-Soviet collaboration: (1) Recognition of Chinese sovereignty over Outer Mongolia, (2) Soviet Government to advance China credits for the purchase of munitions, (3) Number of Soviet military instructors in China to be increased, (4) China to grant trade rights to the Soviet Government.

(3) Outer Mongolian Army Reported on Way to China.

Reports from Chinese sources were in circulation in the latter part of January that Outer Mongolian forces were moving into Ninghsia and Suiyuan for the support of China, and some news despatches even claimed that these troops had captured Pailingmiao, north of Kwei-Sui (Kweihua-Suiyuan City). These reports were later denied in Hankow in both Chinese and Russian circles, but rumors have persisted since that the Outer Mongolian forces were actually on the move and were called off only after strong Soviet representations. The explanation for the Soviet unwillingness for Outer Mongolia to come to China's aid is that Russia feared such an action would precipitate war with Japan.

(4) All-Russian Air Raid on Nanking.

The Military Attache, from Hankow, reports that an all-Russian raid was made on Nanking on January 26th. The Chinese claim that thirty or more Japanese planes were destroyed. The Japanese deny the loss of any planes and claim to have shot down a Chinese plane with a complete Russian crew. The French Military Attache some weeks ago expressed the opinion to the Assistant Military Attache that when the Japanese began "to receive the bomb on the head" from Russian piloted planes it would provoke Japanese retaliatory action of the severest kind against the Soviet.

5. Local Conditions.

(1) Terauchi's Headquarters Moved to Peking.

Headquarters of General Count Juichi Terauchi, Commanding the Imperial Japanese Forces in North China, were moved from Tientsin to Peking on January 20th. The headquarters are housed in the premises of The Moral Endeavor Society in the Tieh Shihtze Hutung (Iron Lion Alley). The Moral Endeavor Society was a club for Chinese officers established by Sung Che-yuan.

The move of the headquarters from Tientsin to Peking was stated to be solely for military purposes. It was doubtless in line with the present Japanese policy of concentrating important organs in Peking, of which the recent transfer of the South Manchuria Railway offices from Tientsin to this city is an example. Incidentally, most Japanese like Peking much better than Tientsin.

Since coming to Peking General Count Terauchi has received the gentlemen of the press in audience, and the representatives of the Fourth Estate seem to be favorably impressed with him, reporting that he appears pleasant, unaffected, and straight-forward in manner.

(2) Members of the Tientsin Jewish Community Detained.

A number of prominent members of the Jewish community of Tientsin were recently "invited" to visit the Headquarters of the Bureau of Public Safety in that city, where they were closely questioned, presumably to determine if they had any red tendencies. All but two of these gentlemen, one a Russian and the other a Lithuanian subject, were allowed to depart the same day. These two, however, were held incommunicado for almost a week. Both have resided in the British Concession of Tientsin for years, bear excellent reputations as law abiding citizens, and have never been suspected of radical tendencies.

A move to register all Russian emigres in North China was recently initiated in Tientsin by a Japanese-appointed "Anti-Communist Committee" of White Russians. It is reported that of 2,000 emigres registered, only thirty have been rejected on account of alleged communistic activities.

(3) Precautions Against Air Raids.

With the move of the Japanese North China High Command from Tientsin to Peking, and reports of increasing activities of Soviet aviators flying for the Chinese Army, the Japanese military authorities in this city seem to be giving some thought to the possibility of air attacks.

Air defense maneuvers were held, after due warning to the populace, on January 30th, but on a very small scale, so small in fact as to be almost invisible to the naked eye. Next day all lights in the city and in the Legation Quarter (in the latter area at Japanese request) were extinguished about 10:30 p.m. The reason for this action, according to the Japanese, was a report that Chinese airplanes were on the way from Shansi to bomb the city, a report which was later admitted to have had no foundation in fact. The Commandants of the Embassy Guards have now agreed, with the French Commandant dissenting, to turn off the lights of the Legation Quarter on request of the Japanese authorities in the event of threatened air raids.

It is considered that the chance of a raid on Peking by planes piloted by either Chinese or Russians is extremely slight. The nearest Chinese military airfield of any importance is believed to be at Fenchow, Shansi.

(4) Re-opening of Peking Universities.

Reports continue that the four Chinese Government universities in the Peking area will be re-opened in the not too distant future. As a local American educator recently aptly put the situation, all that the universities lack in order to re-open are faculty, students, money, and permission.

(5) British-Japanese Clash Averted in Tientsin.

An incident which might have developed into something serious but which happily passed off without serious consequences occurred in Tientsin on January 19th when the Japanese demanded that the authorities of the British Concession turn over to them a Chinese suspected of anti-Japanese activities. When the British authorities refused, Japanese military authorities threatened to come and get the Chinese, to which threat the British military commander in Tientsin countered with a statement that any attempt to force the delivery of the man in question would be resisted. The Japanese then backed down and later crawled out of the situation by stating that language difficulties had caused misunderstandings - a typical Japanese trick. Whether or not some Japanese acted in a high-handed manner without authority, as is of course possible, the bluff was very promptly called.

6. The New Government.

(1) Japanese Recognition of the New Government.

The recent statements by Premier Prince Konoye and Foreign Minister Hirota that Japan is awaiting and actively assisting the formation of a new government in China which will not necessarily grow out of the present Provisional Government indicate that Japan is in no hurry to recognize the new Peking regime (see Report No. 9632 - "Japan's Recent Statements of Policy Toward China"). Meanwhile hardly a day passes without a report appearing in the press concerning the establishment of a new more or less autonomous regime in some part of the country recently conquered by Japan. Reports to this effect emanate most frequently from Central China where, according to a Reuter despatch from Shanghai dated January 23rd, twenty-five peace maintenance commissions and one "Great Way (Ta Tao) government are now functioning under Japanese military occupation. Included among the places governed in this way are Nanking, Chinkiang, Kiangyin, Wuhu, Soochow, Wusih, Huchow, Hangchow, Haining, Kaishing, Quinsan (Kunshan), Paoshan, Chenju, and Tsungming Island. The Great Way Government functions in Pootung.

(2) Emissary of Japanese Foreign Minister Visits North China.

Mr. Masayuki Tani, former Japanese Minister to Austria, arrived in Peking on January 13th. According to Japanese press reports, he was sent here as the personal representative of the Japanese Foreign Minister to investigate conditions and submit a report. Previous press reports that Mr. Tani was coming as the highest diplomatic representative of Japan to the Provisional Government and that his arrival would be followed very shortly by Japanese recognition of the new regime are now known to have been incorrect.

Mr. Tani, who visited Kalgan and Tatung while in these parts, left Peking on January 19th to return to Japan and make his report to Mr. Hirota. His statements to the Japanese press before leaving were non-committal enough but he did say that he was in favor of Japan taking her time in recognizing the Provisional Government, although he added that recognition would come "in the not too distant future." Concerning the economic situation, Mr. Tani expressed the opinion that private Chinese, Japanese, and foreign capital should be given a chance to assist in the economic development of China and that government-controlled enterprises should not be allowed to hog the show.

American newspaper men who met Mr. Tani while he was here were much impressed with his wide culture, pleasing personality, and linguistic accomplishments, but state that his understanding of the situation in China in general and North China in particular seemed rather limited.

(3) New Mayor of Tientsin Assumes Office.

Mr. Pan Yu-kuei, who was recently appointed Mayor of Tientsin vice General Kao Ling-wei, who still retains the job of Governor of Hopei, assumed office on January 17th. Reports from Tientsin indicate that his appointment is not altogether a popular one, as is to be expected in a city where the former incumbent is bound to have a considerable following. The office of Mayor of Tientsin is a fairly lucrative one, hence Kao Ling-wei and his adherents naturally feel some chagrin over the loss of the job.

Mayor Pan and Ex-Mayor Kao are reported to be on very bad terms. When General Kao was in Peking on January 29th, a rumor was circulated in Tientsin that he had been assassinated, and it was a day or so before it could be definitely stated that the report was untrue.

(4) Passing of East Hopei Autonomous Government.

A formal agreement for the amalgamation of the East Hopei Anti-Comintern Autonomous Government, which the Chinese conveniently call "Chitung" ("Chi" the classical name for Hopei, and "tung," east), with the Provisional Government of The Republic of China was signed in Peking, under Japanese supervision, on January 30th. The amalgamation is to go into effect on February first.

There are nine articles in the amalgamation agreement, which provides for the recognition of all administrative acts and contracts of the East Hopei regime. More important, the agreement provides that administrative expenses of East Hopei shall be maintained in status quo and that all officials of East Hopei shall get good jobs in the Provisional Government. Press reports state that East Hopei is to form one of the four administrative districts, to be known as "tao," into which Hopei Province is shortly to be divided. The "tao" system of administration was originated by Yuan Shih-kai in the early days of the Chinese Republic.

Thus the East Hopei Government, long a problem-child in the relations of Japan and China, is about to pass into history. None but the bitterest enemies of China will regret its departure.

7. Hirota's Peace Terms.

On January 22nd Mr. Koki Hirota, the Japanese Foreign Minister, informed the House of Peers of the Imperial Diet concerning the nature of the peace terms which Japan had offered China, through the good offices of Germany, late in December. It was the rejection of these terms, according to Mr. Hirota, which forced the Japanese Government to the decision to break off relations with the Nationalist Government of China.

The terms, as reported in a Reuter despatch from Tokyo, were stated by Mr. Hirota as follows:

> (1) China to cease all anti-Japanese and anti-Manchukuo activities, as well as the countenancing of a pro-Bolshevik policy, and to co-operate with Japan and Manchukuo in a policy of anti-Bolshevism.
>
> (2) China must establish demilitarized zones in necessary areas and establish special political organs in these areas.
>
> (3) China must make economic treaties with Japan and Manchukuo.
>
> (4) China must pay necessary indemnities.

On January 24th Mr. Hirota stated in the Diet that these four terms would form the basis of any future peace negotiations. That the acceptance of the above terms by China would have been equivalent to unconditional surrender, even the most cursory examination will show.

8. German Attitude Toward China.

Reuter's Berlin correspondent, under date of January 26th, reports the appearance in the Berlin *Deutsche Allgemeine Zeitung* of an article very sympathetic toward China. The article, according to Reuter, came from the paper's special correspondent in Hankow and is intended to refute the opinion entertained in many quarters in Germany that China is practically dominated by Communists.

According to the Berlin correspondent of the London *Daily Telegraph*, serious misgivings are beginning to be felt in Germany as to Japan's ability to bring the present war to a speedy conclusion. The immediate result of this feeling, so states the *Daily Telegraph*, is a more friendly attitude toward China in the German press. The article also states that Germany is worried over the danger that Russia may intervene in the war against a weakened Japan.

While it is realized that these interpretations of the present state of German opinion vis-a-vis China come from British sources which are prejudiced in favor of China, the tone of the articles nevertheless agrees with sentiments which the Assistant Military Attache has recently heard expressed by several well informed Germans. These persons, while sympathetic with Japan's effort to combat Communism, still seem to harbor very kind feelings toward China and to hope that some way may be found to terminate the present struggle before this country suffers irreparable losses. They also seem to fear that if the war drags out too long the only country to benefit in the end will be Russia, and Russia, so these Germans appear to think, is the great menace in the world to-day.

9. Hainan Island.

That France is sensitive toward a possible Japanese occupation of Hainan Island is indicated in a Tokyo report which states that on January 27th the French Ambassador to Japan called at the Foreign Office to inquire about the visit of a Japanese naval landing party to Yulin (Yulingkeng) on January 19th. A report of the action of the Japanese landing party has been made in our Situation Report of even date.

While the report states that the French Ambassador was entirely satisfied with the explanation of the affair given him by the Japanese Vice-Minister of Foreign Affairs, namely that the Japanese Navy was merely checking up on the movements of Chinese junks into Yulin harbor with a view to enforcing the blockade of the China coast, the fact that so careful an inquiry was made into the matter indicates that France is keeping a watchful eye on Hainan Island. It is of course obvious that an occupation of Hainan Island by Japan would put the Japanese Navy at the very front door of Indo-China.

A Transocean despatch of recent date from Paris states that considerable uneasiness is felt in France over the apparently increasing influence of Japan in Siam. This office has noted a number of articles concerning Siam which have appeared from time to time in the Japanese press and which indicate that Japan is anxious to cultivate good feeling with Siam. The recent conclusion of a Japan-Siam trade pact is an indication of this attitude on the part of Japan. A war vessel for Siam has recently been built in Japan.

10. Chinese Leaders.

Madame Chiang Kai-shek arrived in Hongkong by air from Hankow on January 12th. It is believed that she was telling the truth when she stated that her visit was without political significance and merely for the purpose of taking a short rest while the Generalissimo was away at the Lunghai front. As the Japanese are not noted for a sense of humor, the remark of the spokesman of the Japanese Embassy in Shanghai concerning the possible significance of the visit seems worth quoting. "It may have a profound political meaning," said the spokesman, "or it may be just the result of Madame Chiang Kai-shek's desire for a hair wave."

A London report states that Madame Sun Yat-sen will go there to address a conference, to be held on February 12th and 13th, organized by the "International Peace Commission" for the purpose of bringing pressure on western powers to stop Japan's war in China.

Mr. Chen Kung-po, former Minister of Industry, who has been touring Europe as a good will ambassador for Chiang Kai-shek, arrived in Hongkong on January 22nd.

Mr. Lin Sen, Chairman of the National Government, who does not get much publicity in the public prints, had his name in the papers on January 27th after he had made a speech in Chungking declaring that Japan had admitted before the world her inability to break down Chinese resistance.

A report, from Japanese sources, recently stated that Mr. Tang Shao-yi, the first Premier of the Chinese Republic and veteran leader in the Southwest wing of the Kuomintang, was being considered for the post of Chief Executive of the new government which Japan is forming in China. Mr. Tang promptly denied the report from his home in Hongkong. He is now over seventy-seven years old and has been living in practical retirement for some years. The only significance of the incident is a possible indication that Japan is having trouble finding suitable material for the head of the new regime in China.

11. Shanghai.

(1) Terrorism in Shanghai.

Killings, bomb throwings, armed robberies, gangster clashes, and "ronin" disturbances have made life in Shanghai exciting during the period of this report. Following the murder last month of Mr. Loh Pah-hong, the well known Chinese Catholic philanthropist, Y. T. Van, lawyer, Y. L. Dau, refugee camp director, and Yang Foh-yuan, member of the Shanghai Civic Association, were shot and killed during January, as was an interpreter of the Japanese Army, Mr. Seizo Harada. No less than nine bomb throwings have been reported, five of which took place on one day, January 28th, on which date five armed robberies were also reported. Fortunately the bombings resulted in little damage and only a few slight casualties. A British police sergeant was shot in the leg and seriously wounded in a gangster clash on January 14th. On January 15th and 19th gangs of Japanese or Korean "ronin" entered Shanghai dance halls and in addition to insulting proprietors, patrons, and Russian taxi dancers, beat up one or two foreigners.

Except for the ronin incidents, the outrages described above are believed to have been the work of a Chinese terrorist organization bent on intimidating Chinese who have shown willingness to co-operate with the Japanese, and at the same time to create such disturbances in Shanghai that foreign intervention might be considered necessary. The bomb throwings, which have occurred in the Chinese city, the International Settlement, and French Concession have involved foreign, Chinese, and Japanese owned property.

A determined effort by the police of the Settlement and the French Concession to rid the foreign areas of disturbing elements was made on January 19th. Eighty-nine persons, including several women, were arrested.

(2) General Matsui Does Not Recognize Neutrality of Concessions.

In an interview granted to the Japanese review "Kaizo" on December 31st and published in the February issue of the magazine on January 22nd, General Iwane Matsui, Commanding the Japanese Forces in Central China, stated: "I do not, in principle, recognize the neutrality of foreign concessions." He also stated in the interview that while he did not believe in hurting the feelings of foreign powers, he thought the Japanese should not fear them, and that if the Japanese acted with determination foreigners would be compelled to respect their authority. "I never ask orders from my government," said General Matsui in the course of the interview, "and everything that is happening here (in Shanghai) is taking place under my entire responsibility."

According to Paris reports, General Matsui's statements created a sensation in the French capital. Following the usual custom of Japanese officialdom after the military have shot off their mouths, the Japanese Ambassador to France, Dr. Yobaro Sugimura, issued a statement on January 23rd toning down the effect of the Matsui outburst by saying that the General's remarks were those of a soldier made in the war fever following the capture of Nanking and that foreigners should pay attention to the official declarations of the Japanese Government, not to the fulminations of militarists.

General Matsui's remarks remind one of the famous dictum of Louis XIV of France, "L'Etat c'est moi."

(2) Censorship.

Mr. H. J. Timperley, China correspondent of The Manchester Guardian, who has many friends among Americans, ran afoul of the Japanese censorship in Shanghai on January 16th when a despatch of his describing Japanese outrages incident to the capture of Hangchow was held up and he was "invited" to visit Japanese Military Headquarters and talk over the matter. Mr. Timperley declined the invitation and complained to his Consul General, who registered a formal protest with the Japanese on January 28th. The British Consul General not only protested specifically concerning interference with Mr. Timperley's despatch, but stated that the British Government did not recognize the right of the Japanese to censor any telegrams. The American Consul General in Shanghai has also protested against Japanese censorship of telegrams.

Japanese censorship was tightened on January 27th in an announcement that firms sending code messages must be certified as reputable by their consular representatives in Shanghai and must deposit their code books in the censor's office. Firms who failed to live up to censorship regulations, stated the announcement, would be denied the privileges of telegraph and cable communication.

The announcement created considerable of a sensation in Shanghai business circles. The regulations about code books have since been somewhat modified and "reputable" firms are no longer required to deposit their books with the censor. Chinese firms, however, are not allowed to file code messages of any kind.

(3) Devastation in the Yangtze Delta.

Reuter states that as a result of the war, one of the greatest mass migrations in history has taken place in the formerly densely populated area between Nanking and Shanghai, and that the appearance of the countryside resembles a desert in which one can find scarcely a single Chinese out of the millions who formerly lived there.

While the report sounds exaggerated, it is a known fact that in the areas where there has been heavy fighting a great proportion of the civil population has fled and is returning very slowly.

(4) Japanese Demands for Increased Powers in Settlement.

The Japanese demands for increased powers on the Shanghai Municipal Council, which were commented on in our last report, have not as yet been answered. It was announced on January 14th, however, that two Japanese inspectors and a number of constables had been appointed in the Shanghai Municipal Council Police. Whether this sop to Cerberus will satisfy the Japanese or not remains to be seen.

(5) Many Deaths Among Shanghai Poor.

It is reported that 4,681 bodies were dumped on the streets of Shanghai during December, mostly those of persons who died from causes attributable to war conditions.

12. Shantung.

(1) Han Fu-ch'u Executed.

General Han Fu-ch'u, former Chairman of Shantung and Commander of the Third Route Army composed of Shantung Provincial troops, was executed by shooting in Hankow on January 24th, after conviction by a court martial on charges of (1) disobedience of orders and retreating, (2) forcing the sale of opium on the people of Shantung, (3) exacting taxes and levies by force, (4) seizure of public funds, and (5) depriving the people of Shantung of arms.

The court which convicted and sentenced Han was presided over by General Lu Chung-lin, a circumstance which is worthy of note as both he and Han were formerly in the Kuominchun under the command of Feng Yu-hsiang.

It was predicted by this office some time ago that Han's fence-straddling policy in Shantung would lead to his ruin, for no matter which side won out in that province, he would be in hot water. Recent reports from Japanese quarters claim that Han actually never made any move to sell out Shantung to the Japanese. Even if this is true, however, his failure to do anything for the Nationalist cause and his ignominious retreat in the fighting in the Tsining area were enough to brand him as an enemy of China.

Opinion seems divided as to whether or not Han got what was coming to him. Many high officials of the Chinese Government might at one time or another have been convicted on counts similar to those for which Han was shot, with the possible exception of the charge of disobedience and retreat in the face of the enemy. To cite a specific example, Yen Hsi-shan, in company with Feng Yu-hsiang, revolted against Chiang Kai-shek in 1930 and came perilously close to overthrowing the Nationalist Government. Anyone who has ever visited Shansi knows how the sale of opium was forced in that province under Yen's orders. And yet Yen is still, nominally at least, an official of the Chinese Government. As for seizing public funds and exacting taxes by force, the Chinese official who is acknowledged to have a perfectly clear record in these respects is a rarity indeed.

There seems no doubt that Han was shot "pour encourager les autres," and whether, in comparison with others, he deserved it or not, he has certainly committed enough crimes in the past to make sure than an innocent man was not executed.

(2) Disturbances in Chefoo.

Chinese Paoantui and police in Chefoo staged a mutiny on January 15th and 16th in the course of which much Chinese property was looted. One Chinese was killed and another wounded. The U.S.S. Marblehead arrived in Chefoo on January 16th and stood by until conditions returned to normal. There are about 200 British and some 80 American residents in Chefoo. No damage to the persons or property of foreigners was reported.

All Chinese troops were withdrawn from Chefoo last December. The cause of the mutiny is said to have been dissatisfaction over pay matters.

(3) Conditions in Tsingtao.

General Chao Chi, a former Governor of the Kiaotsi District, was installed as Mayor of Tsingtao on January 18th.

The first contingent of Japanese citizens returning to Tsingtao landed in the port on January 22nd and have been arriving in increasing numbers since that date.

(4) Japanese Coal Mining Interests in Shantung Damaged.

Reports from Tsingtao state that the Japanese-owned coal mines along the branch of the Kiaotsi Railway which runs south from Chantien to Poshan were almost completely destroyed by Chinese troops on their retreat southward in Shantung after the Japanese crossed the Yellow River late in December. The amount of the damage is said to be at least several hundred million yen.

(5) Disturbances in Weihaiwei.

A police mutiny in Weihaiwei on January 21st caused the landing of British marines to protect British nationals. The situation in the port is now quiet, and Japanese troops have landed and occupied the city. Weihaiwei was formerly a British colony but was returned to China in 1930.

13. Szechwan.

General Liu Hsiang, former Governor of Szechwan, died in Hankow on January 20th at the age of forty-eight. He had been suffering for a long time with cancer and his death was not unexpected.

Liu Hsiang was a perfect example of the warlord of the old school. During the many years that he ruled Szechwan the province was generally conceded to be one of the most misruled areas in China, which was saying a good deal. The way in which he squeezed and exploited his people was an open scandal for years, while his wars with his cousin, Liu Wenhui, reduced the province to a state of ruin where if it had not been for the wonderful fertility of its soil, nothing could have saved a large proportion of the population from starvation.

Although he steadily opposed the ambitions of Chiang Kai-shek to extend his control over Szechwan and was almost at the point of open conflict with the Generalissimo last spring, Liu Hsiang rallied to the support of the Central Government at the outbreak of the war and his troops are said to have fought fairly well on the Shanghai and Nanking fronts.

Probably partly in gratitude for his support in the war and partly in relief at his death, Chiang Kai-shek has been profuse in eulogies of Liu Hsiang since his death. The National Government has issued a mandate commending him for his profound knowledge and noble character, he has been awarded the posthumous honors of a full general of the first grade, $10,000 from the public treasury has been appropriated for his funeral expenses, and "compassionate grants" have been made to his family.

General Chang Chun, formerly Minister of Foreign Affairs, a Kuomintang fair-haired boy and a close adherent of the Generalissimo, has been appointed to succeed Liu Hsiang, a step which is generally conceded will mark the beginning of a steady increase of Chiang Kai-shek's authority in Szechwan. It seems particularly fortunate for Chiang Kai-shek, in view of the fact that Szechwan is one of the most important portions of Chinese territory still unconquered by Japan, that the greatest stumbling block to his direct control of the province should have been removed by the hand of fate.

Szechwan, with its 60,000,000 inhabitants and an area of 500,000 square kilometers, is the largest Chinese province and a fair-sized domain in itself. With its wonderfully rich soil and natural resources, given a half-wey decent administration it should play a most important part in the rehabilitation of China after the war, if there is anything left to rehabilitate when that day comes.

14. Economic.

(1) Flurry in Chinese Bond Market in London.

A statement reported as emanating from Hankow from Dr. Franklin Ho, Under-Secretary of the Economic Department of the Legislative Yuan, to the effect that China might be forced to default on her foreign loans because of the loss of her Customs revenue caused Chinese bonds to drop sharply in London on January 12th.

Dr. H. H. Kung, Minister of Finance, who is now in Hankow, came immediately to the rescue of the bonds with a statement that China intends to live up fully to her obligations. The Finance Minister claimed that China was not only willing but able to meet the service on her foreign loans because of reserves laid up during the good times, particularly the first seven months of 1937, immediately preceding the outbreak of war. This statement is reported by Reuter to have caused Chinese bonds to rise from four to five points on the London market.

Bearing out Dr. Kung's statement that China does not intend to fall down on her financial obligations, came the announcement in Shanghai on January 28th that the semi-annual service on the Chinese Government Consolidated Loan would be fully met, beginning January 29th. This service involves payments of $51,175,000 ($43,125,000 interest and $8,050,000 worth of bonds drawn for redemption.

Payments will be made in "weiwa" currency, a medium of exchange issued by Chinese banks since the war, which must be redeemed in regulated instalments. "Weiwa" currency is said to be negotiable on the market at a slight discount.

(2) New Bank for North China.

Although reports continue that the new Federated Reserve Bank of China will begin business early in February, no definite date has been set for its opening. A late report states that as soon as the notes of the new bank are in circulation, the issues of the Bank of China, Central Bank, and Bank of Communications will be withdrawn from the market.

(3) Tientsin Copper Shortage Partially Relieved.

The shortage of copper coins in Tientsin has been commented on in previous reports. This situation has been partially relieved by the putting into circulation of four, six, ten, and twenty-copper notes, issued by the Bank of Hopei. These notes exchange at the rate of about 460 coppers to a Mex dollar, while actual copper coins stand at about one hundred to the dollar less. Thus, in North China at least, one more step has been taken toward an all-paper currency.

(4) Plans for the Economic Development of North China.

The press continues to print a great deal about plans for the economic development of North and Central China, but very little of a concrete nature appears. Setting aside the vast amount of conflicting and indefinite reports on this subject, a few realities in the present situation are very apparent.

In the first place, before any extensive economic development of North China, to say nothing of Central China, can be undertaken, the military occupation of the area will have to be completed, as a state of almost complete anarchy now exists in the districts not under direct control of the Japanese Army. This will be a most difficult and expensive military operation and when it is completed, granting it can be accomplished, a vast amount of the territory of North China will have been reduced to a state of practical devastation, for what the attacking Japanese Army does not destroy the retreating Chinese forces probably will.

The rehabilitation of the railways of North China, particularly the replacement of rolling stock which has been almost completely withdrawn by the retreating Chinese, will require millions, and it will be a long time, even if money is expended without stint, before these vitally important adjuncts to economic development can be restored to their former capacity.

In Shantung, 300,000,000 million yen worth of cotton mills and other Japanese enterprises in Tsingtao has gone up in smoke, while in other parts of Shantung, particularly on the Kiaotsi Railway, Japanese property has been damaged to the extent of probably 200,000,000 yen.

With these considerations in view, it does not seem like an over-estimate to say that Japan will probably have to spend between one and two billion yen before she can even begin her development program in North China, let alone realize any return therefrom. With this prospect in view, North China as a field for the investment of either Japanese or foreign capital does not appear an attractive one.

For and in the absence of the Military Attache:

David D. Barrett
David D. Barrett
Major, Infantry
Assistant Military Attache

Distribution:
- 6 MID
- 2 Embassy
- 1 Manila
- 1 Tokyo
- 1 Gd; 1 N/A; 1 File

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MAR 24 1938
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WAR DEPARTMENT

2055-622

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COMMENTS ON CURRENT EVENTS

February 2—20, 1938

RECEIVED G/2 W. D. MAR 24 1938

1. Relations of Great Britain with China and Japan
2. The New Government of China
3. Economic
4. Opposition to Chiang Kai-shek in Szechwan
5. Rumors of Trouble in Canton
6. Shanghai
7. Germany Turns Against China
8. Japanese Policy Toward China
9. China Again Appeals to League of Nations
10. Chinese Leaders
11. Village Life in China

1. Relations of Great Britain with China and Japan.

(1) Arrival of New British Ambassador.

The new British Ambassador to China, Sir Archibald Kerr Clark Kerr, arrived in Hongkong on February 17th. Reuter states that he will present his credentials to Mr. Lin Sen, President of the National Government, in Chungking as soon as possible.

The question of the permanent establishment of the British Embassy in China was recently brought up in the House of Commons, at which time the British Foreign Minister said that as the Chinese Government was spread over many capitals, it was being left to the Ambassador in China to make the most advisable contacts, with headquarters in Shanghai.

(2) Status of the Maritime Customs.

Mr. Eden, the British Foreign Minister, stated in the House of Commons on February 7th that the question of the status of the Chinese Maritime Customs was still under negotiation and that the governments of the United States and France, as well as Great Britain, had made their attitude on the subject clear both in Shanghai and in Tokyo. Mr. Eden added that the British Government had in no way altered its views regarding the maintenance of the Customs administration.

(3) British "Merchants of Death."

Branding the British as "Merchants of Death," the Tokyo Nichi Nichi recently declared that if England really wanted to maintain neutrality in the Sino-Japanese conflict she should follow the example set by France in banning the

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transportation of war supplies through Indo-China. In this connection it is interesting to note Mr. Anthony Eden's statement in the House of Commons on February 7th that between June 1, 1937 and January 1938 the total exports of munitions to China from England amounted to £134,338.

(4) Great Britain as a Mediator in Sino-Japanese War.

Havas News Agency (French) reported from London on February 5th that Great Britain had offered Japan her good offices for a joint mediation of European powers in the Sino-Japanese conflict. This report was later reported from many different quarters and elaborated on in great detail. One report stated that Sir Archibald Kerr Clark Kerr, the new British Ambassador, was bringing to China a formula for peace which would both save China's face and yet satisfy Japan. If there was any truth in this, the "formula" must have been the work of a master hand indeed.

The reports of Britain's offer to act as a mediator were later denied in London, Tokyo, and Hankow. It seems hardly possible that there could have been so much smoke without some fire, but just what truth there was in the reports, if any, is not now known. Perhaps the facts will come out later as in the matter of the recent German efforts at mediation.

(5) Resignation of Mr. Eden.

In local Chinese circles the news, announced on February 20th, of the resignation of the British Foreign Minister, Mr. Anthony Eden, was apparently received with little concern. This was largely due to the fact that the German recognition of Manchukuo, which was announced on the 18th, created such consternation that the sudden turn in English political affairs did not receive the attention it would otherwise have aroused. The news, however, cannot be interpreted as anything but another turn for the bad in China's affairs, as Mr. Eden's resignation is generally conceded as a yielding to the demands of Italy and Germany, both friends of Japan and, consequently, from the Chinese viewpoint at least, enemies of China. News of the reception in Hankow of the announcement of Mr. Eden's resignation will be awaited with interest.

2. The New Government of China.

(1) New Regime for South China.

For the past week or so, little has appeared in the public prints concerning the recently established Provisional Government of the Republic of China, but one sees a great deal about the new regime to be created in Central China. Press reports indicate that definite developments along the line of the establishment of this new regime may be expected in the near future. As far as can be determined, no decision has been reached in Japan as to whether or not the North China regime will eventually be merged with the new one about to be born in Central China.

Among prominent persons mentioned as possible material for the post of Premier of the new Central China regime are Mr. Tang Shao-yi, the first Premier of the Chinese Republic and a member of the Central Supervisory Committee of the Kuomintang; Marquis Li Kuo-chieh, former head of the China Merchant's Steam Navigation Company; Mr. Li Shih-hao, former Chairman of the Economic Committee of the defunct Hopei-Chahar Political Council; and Mr. Chen Chung-fu, former Chairman of the Foreign Relations Committee of the same Council. The last named has been spoken of as the favorite candidate of the Japanese Army, which would appear to give him a good chance of landing the job. As far as Mr. Tang Shao-yi is concerned, he is a very old man who has been living in retirement for some years and it seems hardly likely that he would want to emerge to take up the titular head of a Japanese-controlled puppet administration. Mr. Wang Chi-hai, a Fukien "Elder Statesman," has also been mentioned as Premier material, and is said to have considerable support in Tokyo political circles.

(2) Abolition of the East Hopei Regime.

Press reports state that the East Hopei Regime was formally abolished on February 7th when representatives of the Provisional Government proceeded to Tongshan, former capital of East Hopei, and took over the affairs of the autonomous government under the watchful eye of Major General Seiichi Kita, Chief of the Japanese Special Military Mission in Peking and reputed sire of the Provisional Government. According to Japanese press reports, Mr. Chi Tsung-mo, former Chief Executive of East Hopei, has been given a good job as a member of the Executive Commission of the Provisional Government. Other press reports state that although the East Hopei regime is dissolved the East Hopei Bank will continue in operation.

(3) New Federal Reserve Bank for China.

Regulations for the control of the new Federal Reserve Bank for China were promulgated in Peking on February 7th. A digest report on this subject is forwarded with these comments.

In connection with the new bank, it is interesting to note that Mr. Bien Z. S. Bien, Manager of the Tientsin Branch of the Bank of China, who is probably the most prominent Chinese connected with the new Bank, has gone to Hongkong and reports say that he is not coming back to North China.

3. **Economic**.

The gist of a mass of press reports, mostly from Japanese sources, concerning the economic development of North China, appears to be that the Japanese Government has decided that all activities along this line, except those of transportation, will be turned over to a new company, shortly to be established under government control, to be known as the "North China Development Company," the capital of which will be around two hundred million yen. Reports state that the company will probably be formed in April or May of this year.

While this company is to control the management and development of most of the economic enterprises of North China, except railroads and other transportation enterprises, private capital, particularly from Chinese sources, is to be given a chance in certain lines such as communication, mining, and power development.

Control of railways and other transportation facilities is to be handled by a separate company which will be controlled by the South Manchuria Railway Company. Mr. Y. Matsuoka, President of the S.M.R., recently returned to Dairen from Tokyo. His stay in Tokyo is reported to have been for the purpose of persuading the government to allow the S.M.R. to take charge of North China railways and other transportation enterprises, and his efforts along this line are said to have been entirely successful. There is no doubt, however, that there was a good deal of opposition in some powerful circles to allowing the S.M.R. to handle the transportation affairs of North China, but this has evidently been overcome.

Just what will be the relation between the new North China Development Company, if and when it materializes, and the present China Development Company (Hsing Chung Kung Ssu) is not known.

Some talk has appeared in the papers about the formation of a company to handle the economic development of Central China, but if plans along this line are being considered, it is believed that they are still in a nebulous state. One interesting report along this line has recently appeared to the effect that the Japanese Government has no plans to establish state-controlled enterprises in Shanghai for the time being because of possible conflicts with foreign interests.

4. Opposition to Chiang Kai-shek in Szechwan.

As previously reported, Chiang Kai-shek's appointment of General Chang Chun as Chairman of Szechwan to succeed the late Liu Hsiang was a step on the part of the Generalissimo to increase his power in an area which has long resisted his control. As might have been expected, violent opposition to the appointment of General Chang has developed among Szechwan military leaders who fear that the placing of a Chiang Kai-shek favorite in such an influential post will operate to diminish their powers and, what is even more important, their revenues. The merchants and literati of the province are said to be willing enough to support Chiang Kai-shek's nominee, but the military are very anxious to see their favorite, General Wang Fang-tso, a Szechwan man, in the seat of authority.

As is usual in situations of this sort, there has been a great deal of flying back and forth of representatives of the Generalissimo and the Szechwan militarists and many conferences, the results of which are not disclosed to the outside world. The seriousness of the situation is indicated by reports from Chungking on February 11th that the Szechwan militarists had issued a virtual ultimatum to the Central Government declaring that they would not accept General Chang Chun and hinting that if necessary they would use force to keep him from assuming office.

While Chang Chun has not yet been installed in his new post, it seems probable that some kind of a compromise will be reached which will save the face of all parties concerned. As there is only one Central Government division in Szechwan, there is considerable potential danger in the situation, but it seems hardly possible that the Szechwan military leaders, who have supported Chiang fairly well in the present crisis, would care to incur the odium which armed resistance to the authority of the Central Government would entail at this juncture.

5. Rumors of Trouble in Canton.

Rumors of serious trouble in Canton, involving a possible coup d'etat, began to fly thick and fast on February 4th when martial law was declared in the city and the boom across the Pearl River was closed. Like most situations in China, the real facts in the case are very difficult to ascertain but, according to the most reliable reports, rumors of an imminent invasion of Canton and of a Japanese plot to split Kwangtung off from the National Government were chiefly responsible for the tension.

Reports from press sources usually considered reliable state that troops and police in Canton have rounded up some seven hundred members of a group which had planned to assist the Japanese in an attack upon the city. A number of these plotters are said to have been executed, among them one Japanese.

The unrest in Canton was of course seized upon by the Japanese press as an opportunity to spread all sorts of rumors with the apparent design of creating dissension in the Chinese ranks. One of these rumors, originating with Domei, was to the effect that rivalry between General Yü Han-mou, commanding the military forces of Kwangtung, and General Wu Tieh-chen, Chairman of the Province, caused the trouble. Another Domei story stated that a coup, which failed to come off, was planned by Li Chi-shen and Chen Chi-tang, former powerful Southwest leaders, to wrest control from General Yü Han-mou.

Since the 10th of February the situation in Canton has been quiet, and it appears that the explanation of the local authorities that the excitement was due to fears of a Japanese invasion and to the machinations of a group of anti-Central Government plotters represents the true facts in the case.

6. Shanghai.

(1) Terrorism.

Activities of terrorist gangs in Shanghai continue despite the efforts of the police of the Settlement and the French Concession to round up the miscreants. The most lurid activity of the terrorists, so lurid in fact that a wood pulp thriller magazine would scarcely dare to print the story as fiction, has been a series of four decapitations, all of Chinese, the severed heads being deposited at various places in the French Concession. Bombings of newspaper offices also continue, the premises of the American-owned Shanghai Evening Post and Mercury having been bombed twice, and the Hwa Mei Pao, also American-owned, once during the period of this report. The Hwa Mei Pao and its English language contemporary are tied, however, as the former paper had already been bombed once.

It seems clear that the acts of terrorism are the work of two separate gangs, one pro-Japanese and the other pro-Chinese. The pro-Japanese gang is said to have its base in Hongkew, which of course suggests the thought that it may be working with the tacit permission, if not under the direction of, the Japanese military authorities.

In an attempt to control the outrages, the police of the Settlement and the French Concession arrested over one hundred and fifty terrorist suspects on February 11th in one of the most extensive round-ups ever staged in Shanghai. There is no doubt, however, that gangs of the sort now operating in the port will be most difficult to exterminate, particularly the one, if such a one exists, which is operating under Japanese control.

(2) Gradual relaxing of Restrictions on Foreigners.

The extra-settlement areas, west of the Shanghai-Hangchow Railway, were opened to foreigners on February 7th, no passes being required to enter these districts.

(3) Japanese Attempt to Patrol American Sector.

Several instances have been reported in the past two weeks of attempts on the part of Japanese gendarmes to enter the American sector, allegedly for the purpose of patrolling areas in which Japanese reside. All such patrols were turned back and a protest was lodged with the Japanese authorities. It was announced by the Japanese military authorities on February 17th that no more gendarme patrols would be sent into the U. S. sector. It is hoped that the satisfactory settlement of this affair has established a precedent which will tend to prevent friction between the foreign and Japanese military forces in future.

(4) General Matsui to be Relieved.

It was reported by Reuter on February 18th that General Iwane Matsui, Commander-in-Chief of the Japanese Forces in Central China, would be relieved and replaced by General Shunroku Hata, the youngest full General in the Japanese Army. Reason for the relief was stated as a possible desire to replace the fire-eating Matsui with a more conservative man who would get along better with foreigners. Reports from a confidential source in Shanghai state that the relief of General Matsui is being strongly opposed by the higher officers of his command, who not only like to serve under him but also feel that his relief has the appearance of truckling to foreign desires.

It is interesting to speculate whether or not there would have been talk of relieving General Matsui if the news of the German recognition of Manchukuo and the resignation of Mr. Eden, the British Foreign Minister, had broken earlier.

(5) General Matsui Tightens Discipline in Shanghai Area.

Orders were recently issued by General Matsui that the strictest measures would be employed to enforce discipline among the Japanese troops serving in Central China, in order to refute foreign allegations tending to cast discredit upon the good name of the Japanese Army.

Orders have also been issued forbidding Japanese civilians to wear uniform caps or other articles of uniform, the idea being to prevent ronins masquerading as soldiers from mistreating the Chinese.

7. Germany Turns Against China.

The recent manifestations of Germany's friendship for China, a number of which have been touched upon in these comments, were set at naught in one moment by the announcement on February 18th that the Reich would recognize Manchukuo.

Two days later, in the course of his three hour address to the Reichstag, Herr Hitler's cold blooded and contemptuous assertion, "I do not consider China mentally or materially strong enough to resist any Bolshevist attack," set the world straight on Der Führer's attitude toward China. As if the statement just quoted were not enough, Herr Hitler added, "No matter when or how events in the Far East find a final solution, Germany will always consider and value Japan as an element of security in its stand against Communism and its assurance of human culture."

Not only does the Reich's recognition of Manchukuo hurt China's cause by giving great aid and comfort to her enemy, but also the contemptuous words of Herr Hitler strips her of face before the whole world, and loss of face hurts the Chinese, either individually or collectively, most deeply.

Germany's recognition of Manchukuo did not, however, come as an unexpected blow. Since the recent sweeping changes in the German Government which resulted in the elevation of von Ribbentrop to the post of Foreign Minister, the handwriting has been very plain on the wall that China might look for trouble, as von Ribbentrop was the main author of the German-Italian-Japanese anti-Comintern Pact. Baron von Neurath and General von Blomberg, however, who lost power in the German governmental shake-up, had long been known as sincere sympathizers with China's cause.

It is still early to attempt a prediction as to the ultimate effect of Germany's repudiation of China, but it seems inevitable that it will tend to increase the Red influence which the signers of the anti-Comintern Pact are pledged to combat. In looking over the world situation, it now appears that Russia is the only friend left to China, as the recent resignation of the British Foreign Minister, Mr. Anthony Eden, supposedly in an effort to placate Italy and Germany, does not make it seem likely that England is in a position to do much for China. As for the United States, our present apparent high standing in Japanese favor seems a fair indication of our rating as a potential factor in the Far Eastern situation.

Whether or not Russia will come to China's help in her hour of need is a consideration which will have a most important bearing upon the outcome of the present conflict. Russia has so far played a clever, waiting game, seeking, at a minimum of risk and expense, to help China keep up resistance and wear Japan down to a point where the Soviet can risk an attack. Certainly leaders of Soviet Russia must know that they will probably have to fight Japan in the end. Accordingly, the question Russia now faces is just how far she can permit China to be driven before coming to her aid in a much more material way than she has in the past. From the look of the present situation, Russia will have to face a show-down before very long.

8. Japanese Policy Toward China.

Answers by Japanese government leaders to recent interpellations in the Diet have clearly indicated that Japan is determined to secure reparations from China, either in cash or in equivalents thereof. This suggests the thought that if the present destruction of China's material possessions by both sides continues, Japan may be unable to collect indemnities no matter how complete a victory her armies may win. From the look of things just now, after the war Japan may find herself in the anomalous position of having to spend huge sums in conquered territory in order to put the vanquished Chinese in a position to pay indemnities.

Along the line of Japanese policy toward China, some recent statements by Viscount Ishii, Japan's Ambassador of Good Will to Europe, are of interest. Speaking in London before the Japan Society on February 17th, Viscount Ishii declared, "It is the policy of the Japanese Government to maintain a policy of 'open door' in China for the purpose of promoting the welfare of the Chinese people. Japan would welcome the cultural and economic co-operation of other interested powers, especially Great Britain, in the rehabilitation of China.

"Our entire objective in China," said Viscount Ishii, "is stabilization, once for all, of our relations with China upon bases which cannot be destroyed from time to time at the whim of a Chinese Government hostile to us, as has so often occurred in the past. A reconstructed China, working amicably with us all, will bring about that permanent peace in the Far East which Japan, no less than any other country, so earnestly desires."

All of which sounds very fine, but when carefully examined means little except that Viscount Ishii believes Japan is determined to set up a regime in China which will guarantee the peace of Asia by complete subservience to Japan.

9. China Again Appeals to League of Nations.

China's most recent appeal to the League of Nations was discussed on February 1st by the Council of the League at a private session. Next day the Council adopted a resolution drawing the "most serious attention of members of the Council" to the Assembly's resolution of October 6, 1937, and encouraging League members to assist China individually.

This was of course cold comfort for China, but Dr. Wellington Koo, the Chinese Ambassador to France and head of his country's delegation in Geneva, accepted it with the reservation that he reminded the League that China was still appealing for the application of Articles X, XI, and XVII of the Covenant of the League. Article XVII involves the application of sanctions.

This perfunctory action on China's latest appeal to the League elicited very little comment in the Japanese press.

10. Chinese Leaders.

Madame Chiang Kai-shek, who flew to Hongkong from Hankow on January 12th, returned to Hankow on February 19th. While in Hongkong, Madame Chiang was joined by her sister, Madame H. H. Kung, and her brother, Mr. T. V. Soong, former Minister of Finance in the Central Government. Many rumors have been in circulation concerning the reasons behind this meeting of the Soong clan. Reports from a source close to Madame Chiang Kai-shek state that a family conference was held for two purposes, one to satisfy desires of T. V. Soong for more power in the Central Government, and the other to curb the growing influence of Madame H. H. Kung. The results, if any, of the conference are not apparent to the naked eye, but close watch will be kept for any developments which may give indications as to their nature.

Mindful of the necessity of keeping G-2 informed of changes among Chinese military leaders, this office is constantly on the watch for news of the death, execution, or punishment of important military officials. Careful scrutiny of recent reports shows the following:

Tung Lin-ko, Vice-Commander, 29th Army, and Chao Tung-yu, Commanding General, 132nd Division, killed at Nanyuan, near Peking, on July 29, 1937.

Li Fu-ying, Shansi provincial commander (68th Division) sentenced to death for failure to defend Tatung, Shansi. Believed to have been executed.

Sung Hsi-lien, Commanding General 36th Division, busted and held for court martial for leaving his defense sector at Shanghai.

Lo Lin, Commanding General 77th Division, busted and held for court martial for inefficiency.

Tseng Yu-jen, Commanding General 158th Division, dismissed for not putting up resistance.

According to a Hankow report of February 18th, Chang Hsueh-liang, "The Young Marshal," is seeking permission to live on Hengshan Mountain, south of Changsha, Hunan, "in order to study ancient political philosophy from private tutors." The report further states that he is to be accompanied into his retirement, well earned or otherwise, by "a certain Miss Chao." It would be a far cry from the courts of Europe, which Chang Hsueh-liang once visited in great style at Chinese Government expense, to the solitude of a high mountain in Hunan, even though his retirement be solaced by the company of "a certain Miss Chao."

Li Tsung-jen, Commanding the 5th War Zone (Shantung, Kiangsu, and Anhui), was sworn in as Chairman of Anhui on February 14th at Liuan, vice Chiang Tso-pin. General Li, who two years ago was a bitter enemy of Chiang Kai-shek, now seems in a fair way to become one of the Generalissimo's most trusted leaders. "War makes strange bed-fellows."

Marshal Chiang Kai-shek broadcasted from Hankow on February 20th to celebrate the fourth anniversary of the founding of the New Life Movement. "The spirit of the New Life Movement is our most reliable weapon for the regeneration of the nation," said the Marshal in the course of his remarks, which also included an appeal to wipe out national humiliation.

To this office, the present seems an inopportune moment for Chiang Kai-shek to be harping upon the pious platitudes of the New Life Movement, which since its inception has been generally looked upon as a means invented by the Generalissimo to keep the minds of the people from turning into channels dangerous or embarrassing to high officials of the Kuomintang. Now that the people are faced with the cruel realities of war, it would seem that they might be spared the discomfort of being harangued about the New Life Movement.

Before the Japanese took Peking, the emblem of the New Life Movement was displayed over every business premise in the city, even over the doors of the brothels outside Chienmen, where its appearance seemed a trifle incongruous, to put it mildly.

11. Village Life in China.

According to the reports of qualified foreign observers, the inhabitants of the villages near the Peking-Hankow Railway in Hopei Province are surely in a position between the devil and deep sea. The railway line is held, with more or less success, by the Japanese Army, but the countryside is full of Reds, bandits, and other irregulars who harass the Japanese whenever a favorable opportunity presents.

The Japanese Army, wishing to be informed of the movements of the irregulars, have threatened the villagers with dire punishment if they do not report their movements. Accordingly, if the irregulars appear in a village, the inhabitants can take their choice between inviting retaliatory measures from the Japanese by reporting nothing, and risking the vengeance of the irregulars by telling the Japanese about them. In either case they stand to gain nothing and lose much.

When the Japanese Army ventures away from the railroad to mop up irregulars in some villages, the anti-Japanese forces are almost invariably warned of the operation and betake themselves to other parts. Thus the Japanese troops often feel impelled to shoot a number of villagers, not only "pour encourager les autres" but also to make it appear that the Japanese Army is carrying on military operations against an armed enemy. In other instances, the Japanese may bomb or shell a village where the presence of irregulars is suspected or reported without attempting to mop it up with infantry, a process which saves Japanese lives but is hard on the villagers.

The manner in which the Reds, pinks, irregulars, or bandits, as the case may be, treat the villagers in the no man's land away from the railways in Hopei, varies in different districts. Almost always, however, they make heavy demands for money and supplies. A Chinese of good education whose family lives in central Hopei recently informed this office that in his home town the family residence was completely occupied by irregulars, but that these troops did not molest his family or rape the village women.

Because of the difficulty which the Japanese Army is finding in stamping out the irregulars which infest Hopei and other parts of the occupied territory, it would not be surprising to see the "protected village" system, which is said to have been used in Manchuria with considerable success, from the Japanese viewpoint, instituted in some areas of China. Under this system the farmers are compelled to live in fortified villages which are in effect prison camps. In the daytime they are permitted to leave the villages to work their farms, but must come back inside the village walls at night.

For and in the absence of the Military Attache:

David D. Barrett
David D. Barrett
Major, Infantry
Assistant Military Attache

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COMMENTS ON CURRENT EVENTS

February 21—March 24, 1938

RECEIVED G/2 W. D. APR 19 1938

1. Relations of United States with Japan and China
2. Sino-British and British-Japanese Relations
3. Germany
4. Soviet Russia
5. Manchukuo
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8. Japanese Policy Toward China
9. Local Conditions, Peking and Tientsin Areas
10. Chinese Maritime Customs
11. Shanghai
12. Chinese Leaders
13. Szechwan
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1. Relations of United States with China and Japan.

(1) United States Government Notified Japan of Rights of American Citizens in China

On February 25, 1938 it was announced in Washington that the United States Government had formally notified Japan that Americans are entitled to reside in China and that the United States Government will hold Japan strictly to account for injuries to American nationals and for any damage to their property resulting from Japanese military operations. This declaration very probably was intended to make clear the attitude of the United States Government toward the "suggestion" made by the Japanese military authorities in Peking to the Diplomatic Corps on February 3rd that all third-power nationals be withdrawn from an area bounded on the south by the Yangtze, on the east by the China coast, and on the north by a line running from Tsingtao through Yenchow (Shantung) to Taiyuan, Shansi.

The Japanese Foreign Office on February 26th denied that there had been any intention on the part of the Japanese Government to request the withdrawal of Americans from the North China zone of hostilities and that the sole object of the "suggestion" was to preclude the possibility of loss of foreign lives and damage to foreign property. This statement of the Japanese Foreign Office looks like an attempt to gloss over a typical piece of effrontery on the part of the Japanese Army. The world is now so familiar with acts of this sort on the part of the Japanese that little attention is paid to them, but the clean-cut and uncompromising stand of the United States Government on the subject cannot but have a salutary effect upon the Japanese, both in civil and military circles.

(2) Japanese Concerned over American Pilots in Chinese Service.

Press notices from Japan state that the Japanese are deeply concerned over reports that the raid on Formosa of February 23rd was conducted by an American pilot, Vincent Schmidt, said to be a veteran of the World War and the present fighting in Spain. The Military Attache in Hankow reports that Schmidt is generally believed to have led the raid, the military results of which were, however, negligible. Schmidt is supposed to command China's "foreign legion" of aviators, which does not, however, include Russians, who form a separate unit. Latest reports from Hankow state that this "foreign legion" has been disbanded and the pilots either dismissed or assigned to other squadrons or to aviation schools.

(3) American Mission Bombed.

The American Southern Presbyterian Mission at Tenghsien, on the Tsinpu Railway in Shantung, was bombed on March 11th by a low-flying Japanese airplane. As far as is known there were no casualties.

2. Sino-British and British-Japanese Relations.

(1) Arrival of New British Ambassador.

Sir Archibald Clark Kerr, the new British Ambassador to China, arrived in Shanghai on February 24th. Interviewed after his arrival, Sir Archibald denied that he brought with him any peace plan for the settlement of the Sino-Japanese conflict. He stated that there would be no change in the Far Eastern policy of Great Britain as the result of the recent resignation of Mr. Anthony Eden as Foreign Secretary, as Mr. Eden's resignation had been the result of events in Europe, not in the Far East. Concerning his post of duty, Sir Archibald said he would work where he found himself most useful, but that a part of the Embassy would be maintained in Shanghai under all circumstances. Sir Archibald has not yet presented his credentials to Mr. Lin Sen, Chairman of the Chinese National Government.

(2) Tani Advises Respect for British Interests.

Mr. Masayuki Tani, Japan's new Minister at Large, who is now in charge of Japan's diplomatic organs in China, recently stated to representatives of the Japanese press in Shanghai, according to the United Press, that careful attention should be paid to British rights and interests in China. "There can be no friction between Japan and Britain," Mr. Tani is quoted as saying, "unless Japan infringes upon the British trade interests and vested rights in the Orient. This has especially been made true through the replacement of the 'Eden diplomacy' by the 'Chamberlain diplomacy,' or in other words, the replacement of idealism by realism."

The above appears in harmony with a recently reported desire on the part of the Japanese Government to tone down anti-British sentiment.

(3) British Missionary Reported Abused in Tsangchow.

Reuter reports that Reverend A.H.J. Murray, of the London Missionary Society stationed in Tsangchow, Hopei, was struck on the head by a Japanese sentry on February 20th when he failed to halt at the sentry's command. It is further alleged that Reverend Murray was later compelled to remove his hat and bow to the sentry. This matter was aired in the House of Commons on March 21st, at which time the Foreign Secretary stated that the Japanese Embassy in Peking had reported that no general orders had been issued requiring foreigners to bow to Japanese sentries, and that instructions had been sent to Tsangchow to rescind at once any local orders to this effect.

(4) Reuter Still Unpopular with the Japanese.

Reuter reports from Tokyo on March 15th that the Japanese Army has found documents to prove that Reuter has been receiving a subsidy of Yuan 2,000 per month from the Kuomintang Party. As far as this office has been able to note, Reuter is not noticeably anti-Japanese in its reports, which appear generally fair to both sides. As a matter of fact, there appears to be little difference in the attitude of Reuter's reports and those of Transocean, the German news agency.

(5) China Reported Seeking Credit from British Banks.

Reuter reported from London on March 7th that the Chinese authorities had approached a group of London banks for credit in an unnamed amount for one or two years, interest to be at four per cent. Security for the credit is reported to be silver shipped to London to be valued for the purposes of the loan at twelve pence (about twenty-five cents U. S. currency) per ounce. The credit is said to be sought for the purpose of guaranteeing payment of interest on foreign loans in order to support China's credit abroad.

(6) Alleged Firing on Imperial Airways Flying Boat Settled.

Reports from London state that the incident involving the alleged firing by Japanese warships on an Imperial Airways flying boat near Hongkong on February 21st has been settled.

From the press reports concerning the incident, there seems to have been some doubt as to whether the ship was fired on or merely pursued by Japanese aircraft. No statement on the affair was made by the Japanese Government, but the explanation of the Japanese Consul General in Hongkong that the incident was due to inability on the part of Japanese warships to distinguish the flying boat as a passenger plane was accepted.

3. Germany.

(1) Japanese Soldier Wounds German Subject in Shanghai.

Dr. Edward Birt, a prominent member of the German community in Shanghai, was attacked by a Japanese soldier just outside the Settlement on February 27th and severely wounded in the face with a bayonet. The Japanese explanation of the incident is worth repeating. It claims that the soldier, in a drunken condition, was being baited by Chinese villagers, and in order to protect himself he tied his bayonet to a string and swung it round his head to hold off the yokels. Dr. Birt, unfortunately, happened to come from behind and get in the way of the bayonet. Dr. Birt's version of the affair states that he was the object of an unprovoked attack by a drunken soldier who not only stabbed him in the face with a bayonet but called him an "English pig." The Japanese Consul General in Shanghai has apologized for the attack and promised that the culprit will be duly punished.

(2) China Protests Against German Recognition of Manchukuo.

China protested formally on February 25th against the Reich's recognition of Manchukuo, and on March 13th sent another note in reply to Germany's answer to the original protest. While expressing dissatisfaction with Germany's reply to the original protest, which the Chinese Government said failed to give sympathetic understanding to the legal standpoint assumed by the Chinese Government, the second Chinese note expressed the opinion that China and Germany should continue their relations in the spirit of friendliness which has characterized the past relations of the two countries.

Except for the purpose of keeping the records of diplomatic intercourse straight there appears to be little point in China's protests to Germany on the subject of the recognition of Manchukuo.

Reuter reports from Shanghai that the German military advisers have pledged themselves to remain true friends of China and will not leave the country in spite of the Reich's recognition of Manchukuo.

(3) Shanghai Tatao Government Takes Over German-Owned Light Railway Line.

The German firm of Siemens and Company has protested to the Japanese authorities in Shanghai over the alleged seizure by the Japanese-dominated Tatao (Great Way) Government of Greater Shanghai of a light railway line in the Pootung district. The seizure of the railway is said to have occurred after the discovery by the Japanese of arms in the possession of a Chinese traveler on the road. The railway company is said to owe the German firm Yuan 100,000, and a German trustee had been appointed to look after the company's interests. This trustee, according to a Transocean report, has been prevented from discharging his duties.

4. Soviet Russia.

(1) Russia China's Only Hope in Present Crisis.

Reuter reported from Hankow on March 7th that the general concensus of opinion among Chinese officials in the temporary capital was that little foreign assistance would be forthcoming in the struggle against Japan, and that China's only hope is to seek closer collaboration with Soviet Russia, leaving out of consideration the question of future relations between the Kuomintang and the Chinese Communist Party. According to Reuter, the feeling appears to be gaining strength that whether the Kuomintang or the Chinese communists will control China is not a question of so much importance as the necessity for winning the war.

(2) Soviet Steamer Fined for Anchoring in Japanese Waters.

The master of the Soviet steamer Kuznetskstroy was fined 1,500 yen on March 19th by a court in Hakodate, Japan, for alleged violation of the military secret laws by anchoring in forbidden waters of southern Hokkaido on February 19th. It was claimed by the captain of the vessel that he was seeking shelter in a severe storm and had no course other than to anchor where he did. The captain and some of the members of the crew were arrested and imprisoned during the investigation of the case and protests by the Soviet Ambassador in Tokyo were of no avail. The case is reported to have aroused considerable resentment in Russia.

(3) Soviet Chief of Staff Dismissed.

Reuter reported from Moscow on February 23rd that General Ivan Fedko, Commander of the Kiev Military Corps, has been appointed Vice-Commissar for Defense, and that Marshal Yogorov, Chief of Staff since 1931, who has been Marshal

Voroshilov's first Vice-Commissar of Defense, had recently failed to appear at celebrations commemorating the twentieth anniversary of the founding of the Red Army.

(4) Japanese Interests in Saghalien.

Reports from Tokyo state that Mr. Koki Hirota, the Japanese Foreign Minister, stated in the Diet on March 23rd that Japan was determined to obtain the release of Japanese nationals detained by Soviet officials in North Saghalien on suspicion of carrying on espionage activities.

Concerning the fisheries question now outstanding between Japan and Russia, it was reported on March 2nd that Japan has recently obtained leases on most of the fishery lots which she desired in Soviet waters, thus relieving anxiety felt in Tokyo that Japanese fishing interests might be adversely affected by the fact that a satisfactory settlement of the fisheries question has not yet been reached.

(5) Chinese Press Claims Russian Loan Negotiated.

Reports were in circulation in Chinese circles in Shanghai on March 19th that Mr. Sun Fo had concluded a loan of one hundred million roubles with the Soviet Government, the money to be used for the purchase of munitions. The report has not yet been confirmed.

5. Manchukuo.

(1) Manchukuo May Not Pay Last Instalment Due on C.E.R.

A Domei report from Hsinking on March 18th stated that the Manchukuo Government would hold up the last instalment of Yen 5,981,625 due for the transfer of the Chinese Eastern Railway (now known as the North Manchuria Railway), unless the Soviet Government paid the sum of Yen 5,600,000 owed for freight and telegraph services before March 23rd, the date on which the last instalment falls due.

(2) Exchange of Ministers Between Italy and Manchukuo.

The newly appointed Italian Minister to Manchukuo, Signor Cortese, was due to present his credentials to the Emperor in Hsinking on March 23rd. The temporary Italian Legation will be established in the Yamato Hotel. The Italian Consulate General at Mukden is to be abolished.

Mr. Hsu Chao-ching, the new Manchukuo Minister to Italy, sailed for his post from Kobe on March 18th.

(3) Manchukuo Sums up Alleged Violations of her Border by Russia.

On February 25th a report from Hsinking stated that cases of illegal crossing of the Manchukuo-Soviet border by Russians, firing on Manchukuo border patrols, and illegal detention of Manchukuo citizens in Russia totalled one hundred and seventy in 1937. Of these, thirty-four cases were illegal crossings and sixteen were invasions of Manchukuo territory by Soviet planes.

Reports from Hsinking also state that Manchukuo consular representatives in Chita and Blagoveschensk have been recently subjected to cruel treatment, in that merchants have been forbidden to sell them fuel, food, and other necessities of life in the dead of winter.

(4) Alleged Success of Bandit Campaign in Manchukuo.

Hsinking reports state that during the past seven years the number of bandits in Manchuria has been reduced from over 300,000 to 9,000. In punitive expeditions against bandits in 1937, so states the report, the Japanese Army lost 289 killed and 282 wounded, while 11,881 bandits were killed and 2,016 made prisoners.

(5) Manchuria Mining Company Organized.

According to a Hsinking report, the Manchuria Mining Company, a subsidiary of the Manchuria Heavy Industries Company, was recently established with head offices in Hsinking and a capital of Yen 50,000,000 to exploit all mineral resources of Manchukuo. Branch offices are to be opened at Tunghua, Mukden, and Chengte (Jehol).

6. Mongolia.

A report from Kalgan states that officials of the Japanese Government and of the Inner Mongolian regime have completed arrangements for the organization of a company to handle postal service and electric facilities in the territory of the new Mongol autonomous state. The new firm is to have a capitalization of Yen 12,000,000, of which half is to be put up by Japan and the rest by Chinese investors. According to the report, six per cent return on the capital is guaranteed.

In the opinion of this office the money for this project will not be easy to raise either in Japan or China.

7. Governments in China.

(1) Provisional Government of China.

(a) Achievements of the Provisional Government: An article emanating from the Domei News Agency in Peking on March 19th pointed to the following as accomplishments of the new Provisional Government since its inception: Laying foundation of budgetary system, enlargement of area to include former East Hopei Administration, appointment of Governor of Shantung and administrators for a considerable portion of this province, establishment of the Federal Reserve Bank, establishment of cordial relations with Manchukuo. The Peking and Tientsin Times (Tientsin) very pertinently characterized this article as an attempt to make something out of nothing. To state the matter in another way, the new government remains just what it was at its founding - a shadow regime maintained by the Japanese Army and exercising only such small measure of authority as the Japanese Army chooses to allow it.

According to Domei, Shansi will soon be added to the domain of the Provisional Government, now that the Japanese troops have conquered the province.

(b) Meeting of Hopei Hsien Magistrates. A meeting of the magistrates of ten Hopei hsiens was opened in Tientsin on March 22nd, under the direction of the Japanese special military mission in Tientsin. The hsiens represented are located contiguous to the Tientsin-Pukow Railway. The agenda of the meeting is reported to include measures for administrative improvement and restoration of normal order in the districts represented. A similar meeting of magistrates from hsiens on the Peking-Hankow Railway is to be opened in Peking in a few days. When the meetings are completed, about twenty hsiens will have participated. There are over one hundred and thirty hsiens in Hopei Province, indicating the extent of Japanese control at the present time.

(2) New Government for Central China.

Reports were current in Shanghai on March 16th that the new Central China government would be established in Nanking on that date, but nothing definite has yet materialized. The North China Daily News (Shanghai) even went so far as to announce the names of the principal officials of the new regime, most of whom were former members of the Anfu party but none of them well known.

Just what is holding up the formation of the new government is difficult to determine, but it seems very likely that personnel and financial difficulties are proving the main stumbling blocks. There is no doubt that Japan is having a hard time finding Chinese of any standing who will allow themselves to be associated with the new puppet regime. As for the necessary funds, unless the Japanese Government is willing to put up the money it will be hard to find it elsewhere.

Just now it seems hardly worth while to speculate on whether the new regime for Central China will be maintained side by side with the Provisional Government of China now based on Peking, or whether the two will be combined. Japanese opinion in responsible quarters appears to be divided on this point, and it is very probable that no decision has as yet been reached concerning the matter.

Most recent reports from Japan indicate that the establishment of the new Central China regime may be expected in the very hear future.

8. Japanese Policy Toward China.

(1) Japan Determined not to Evacuate Territory now Held.

According to Reuter, Prince Konoye, the Japanese Premier, stated in the Diet on March 22nd that while it was difficult to foretell the limit of Japanese activities on the Chinese front, "he could at least say with safety that Japan is firmly determined not to evacuate even an inch of the territory now occupied by the Japanese forces." No reports have as yet been received of any elaboration or explanation of this very interesting if not startling pronouncement, and the spokesman for the Foreign Office when questioned on the subject has given only a vague and evasive reply. The declaration certainly sounds inconsistent with Japan's often reiterated assertions that she has no territorial designs on China. In the opinion of this office, however, the longer the present war continues the greater the certainty that Japan will eventually be forced to an open statement that she intends to keep what she has conquered in China. Certainly such a statement would not come as much of a shock to the world.

(2) Japanese War Office Warns Public Concerning China Incident.

On the occasion of the celebration of Army Day, the Japanese War Office issued a lengthy warning to the Japanese people stressing the fact that China, in spite of her recent crushing defeats at the hands of the Japanese Army, is still capable of keeping up a protracted resistance. "China not being a modern state," stated the warning, "seems to suffer less acutely than a fully developed state, this in spite of the severity of its losses both in men and money. It is because of this circumstance that China can still plan long-term warfare even after the fall of Nanking."

(3) Mr. Toshi Shiratori on Japan's Prospects in China.

Mr. Toshi Shiratori, former Minister to Sweden and before that spokesman for the Japanese Foreign Office during the Manchurian incident, was recently in Peking. During the course of an interview with the foreign press representatives he made the following statement: "We never expect to make any money out of Manchukuo. We never hope to profit out of China either. It is our fate to carry the burden." Mr. Shiratori went on to state, "We wish to make the Chinese our friends. It is a work of many decades, possibly much harder than merely fighting them in war."

While Mr. Shiratori's remarks cannot be taken as representing the official view of the Japanese Government, it seems unfortunate that a man of such impressive background should make such patently silly statements. His remarks about Japan expecting no profits from her China venture sound particularly pointless in contrast with a recent statement of Mr. Masayuki Tani, Japan's Ambassador-at-Large, who arrived in Shanghai on March 8th to take charge of all Japanese diplomatic organs in China. In his first interview with the press, in speaking of Japan's financial condition, Mr. Tani said: "I believe that between sixty and seventy per cent of the money spent by Japan in China will eventually find its way into Japan's coffers, and therefore if the situation continues to develop along the present lines, we should entertain no apprehensions even if the conflict lasts for years."

(4) Generals Hata and Sato on the China Situation.

General Shunroku Hata, who recently replaced General Matsui in command of the Japanese forces in Central China, in an interview with the Japanese press on March 10th made some interesting statements on the present situation. General Hata stated that the Japanese Army was prepared if necessary to remain in Central China for five or ten years, and he denied that Japan's policies were primarily concerned with North China. He also stated that Japan was prepared to welcome and cooperate with any new government in Central China created spontaneously against Communism and the present National Government of China.

General Hata's use of the word "spontaneously" in connection with the formation of a new government for Central China seems rather ill chosen, in view of the trouble which the Japanese seem to be meeting in getting this government started.

Major General Yasonosuke Sato, retired army officer now in Shanghai gathering data for a series of articles for the Tokyo Nichi Nichi, stated in a despatch to that paper on March 19th, "If the Chiang Kai-shek administration is to be overthrown, it is urgently necessary to occupy Hankow at the earliest possible opportunity."

(5) Foreigners Threatened with Death Who Take Over Chinese Property.

Japanese military headquarters in Shanghai announced on March 11th that all persons who have taken over property owned by Chinese "engaged in hostile acts against the Japanese forces" in Japanese-occupied territory since August 13, 1937, are liable to be dealt with in accordance with "the full severity of military codes." This statement is aimed particularly at foreigners who have taken over property from Chinese in Japanese-occupied territory in order to prevent seizure of the property by the Japanese.

9. Local Conditions, Peking and Tientsin Areas.

(1) General Terauchi to be Relieved.

General Count Terauchi, who has been in command of the Japanese troops in North China for several months and who has maintained his headquarters in this city since January 20th, is reported about to be relieved. A desire to replace him with a stronger man is said to be the reason for his coming replacement. There has been some talk in Japanese circles that General Terauchi will be succeeded here by General Koiso, now in command of the Japanese forces in Korea and formerly (1932-1934) Chief of Staff of the Kwantung Army.

Inasmuch as General Terauchi apparently had no control at all over the Kwantung Army, part of which is now in occupation of Suiyuan and northern Shansi, a desire to secure unified command in North China may be behind the move. Certainly if General Koiso is given the North China command, as a former Chief of Staff of the Kwantung Army he should be able to get along with this extremely independent organization better than General Terauchi did.

(2) Punishment for Circulating Rebellious Propaganda Decreed in Peking.

The Ministry of Justice of the Provisional Government recently decreed death or life imprisonment for the following offenses: Disturbance of peace and order, engaging in espionage activities, inducing soldiers to desert, spreading rebellious propaganda by literature, cartoons or speeches, leakage of political or military secrets to rebels, adopting measures to disrupt communications. Mitigation of punishment is promised to offenders "who surrender to the government." Under the provisions of this decree, it would seem easy to condemn a man to death on almost any trumped-up charge.

(3) Peking Holds First Air Defense Drill.

Peking held its first air defense exercise on March 6th. All street, vehicle, and house lights in the city, except in the Legation Quarter, were extinguished, and searchlights were trained on possible air approaches.

(4) Japanese Eagerly Acquiring Property in Peking.

The Japanese Government may have no territorial ambitions in China, but individual Japanese are acquiring control of property in Peking, particularly in the East Tartar City, with great rapidity. The recent great increase in the Japanese population has created a scarcity of houses for rent. Desirable houses, particularly those with gardens, suitable for the use of the more important military officials are being eagerly snapped up by the Japanese wherever they can be found. On Hatamen Street, where there were formerly very few foreign business premises, Japanese are opening numerous shops and restaurants. The Capitol Theatre, the most modern picture house in the city, was recently sold to a Japanese and according to reports will soon curtail its showing of foreign films.

(5) Japan Interested in North China Schools.

Reuter reported from Tokyo on March 20th that Marquis Kido, the Minister of Education, had stated in the Diet that he would give his attention to the management of universities in North China. Local reports state that the former government universities in Peking will open in April. The Ministry of Education of the Provisional Government has inserted an advertisement in the Chinese papers requesting the registration of second, third, and fourth year students of these universities.

10. Chinese Maritime Customs.

(1) Question of Control of Shanghai Customs.

Numerous reports have recently emanated from Japanese quarters that the question of the control of the Maritime Customs in Shanghai, now under negotiation between the British and Japanese authorities in that city, is about to be satisfactorily settled. A Reuter despatch from Tokyo of March 21st, however, stated that all such reports are exaggerated and that the present Anglo-Japanese conversations on the subject are purely exploratory. It was also pointed out in this despatch that other countries, notably France and the United States, are interested in the Customs issue, so that it is not possible for the matter to be settled between England and Japan alone.

Another Reuter report from Tokyo, dated March 23rd, states that the Foreign Minister, Mr. Hirota, has declared himself in favor of the seizure of the Shanghai Customs by Japan, but that the vested rights and interests of foreign nations in connection with the Customs should be scrupulously respected.

(2) Another Downward Revision of Tariffs Impending.

Domei states that in May a drastic downward revision of customs tariffs will be effected by the Provisional Government of China. According to reports current in Tientsin, the reduction will apply largely to rayon, piece goods, machinery, hardware, and electrical supplies.

11. Shanghai.

(1) Terrorism and Tension.

Terroristic acts, evidently intended to intimidate persons suspected of being either pro-Chinese or pro-Japanese, continue in Shanghai, as do occasional periods of tensity, the latter generally due to fears that the Japanese are about to take over the International Settlement.

The following partial capitulation of events of the past four weeks in Shanghai gives some idea of the alarms with which life is attended in that troubled city:

February 23: Two allegedly anti-Japanese Chinese newspaper men each received a package containing a severed hand and a threatening note.

February 24: Nine Chinese and a Dane injured by explosion of a bomb thrown at premises of the American-owned Hwa Mei Wan Pao, making the third time this allegedly anti-Japanese newspaper has been bombed.

February 28: Sixth decapitated head found in bad state of decomposition in French Concession.

March 4: Five men, one woman, and one child injured by two bombs, one thrown in French Concession, the other in the Settlement at plant of the Ta Mei Wan Pao, the Chinese edition of the Shanghai Evening Post and Mercury.

March 7: General Chow Feng-chi, small-time militarist long out of employment, said to have been scheduled for post of Minister of War in coming Japanese-dominated Central China regime, shot and killed in French Concession.

March 10: Seventh decapitated head found in French Concession.

March 15: Chinese official of Japanese-sponsored Chapei Municipal Government shot and seriously wounded by gunmen on border of International Settlement. Gunmen escaped.

March 16: Day of tension. Rumors in circulation Japanese about to take over Settlement. French troops man borders of their Concession. Japanese announce intention to march troops down Nanking Road through American sector, but later yield to American protests and abandon proposed march.

Small bomb explodes in heart of Settlement while automobile occupied by Japanese is passing, giving rise to fears Japanese would seize this as pretext for occupation of Settlement. Tension later eased when Japanese Embassy spokesman declared emphatically no foundation in rumors Japanese intended action in Settlement or French Concession.

March 22: Shooting and killing of Japanese, allegedly by occupants of passing motorcar, causing Japanese to close all bridges into Settlement for over two hours. Later announced that Japanese killed himself just as car passed.

(2) Censorship.

The Japanese authorities in Shanghai began the censorship of mail in the head Post Office on March 7th. Both the British and American Governments have protested against this action through their consular representatives in Shanghai and through diplomatic channels in Tokyo, but the censorship has continued. According to the Postal Commissioner in Shanghai, a French citizen, the censorship is largely nominal and very few letters are opened. On March 10th it was announced that foreign news agencies must furnish the Japanese authorities with copies of the translations of their despatches intended for release in the Chinese press. This was later modified to apply only to news agencies of countries not enjoying extraterritorial rights, a discrimination which must have irked the German Transocean correspondents.

(3) Shanghai Municipal Council Rejects Japanese Demands.

On January 4, 1938, the Japanese authorities in Shanghai presented certain demands to the Shanghai Municipal Council (see our Report No. 9623, page 30). The reply to these demands was delivered on March 21st and stated that the Council was prepared to meet certain of the Japanese terms if, simultaneously, the Japanese would return to international control the Hongkew section of the Settlement, which has been occupied since the outbreak of hostilities.

The Council stated that it was willing (1) to increase the number of Japanese police, (2) to give Japanese policemen equal promotion rights with other foreign police, and (3) to appoint a special Japanese officer to work in co-operation with an officer appointed by the Council to supervise the Japanese area of the Settlement. The other demands for an increased personnel in the administrative departments of the Council and the appointment of a Japanese to the Secretariat of the Council were courteously refused.

It is reported that the Japanese have accepted the reply of the Council to the demands. Strangely enough, rumors have been in circulation for the last few days in French military circles in Tientsin that the Japanese are planning not only to take over the International Settlement and French Concession in Shanghai but the French and British Concessions in Tientsin as well. No such action is expected by this office just now, as it is believed that the Japanese will be satisfied for the time being with having got their heads under the tent in Shanghai.

(4) Claims for War Damages in Shanghai.

Foreign consulates in Shanghai have been engaged for some time on the task of getting in shape the claims of their nationals for compensation for losses incurred as the result of recent hostilities. The total amount of these claims is estimated between 30,000,000 and 100,000,000 yuan. It is believed that the amount of the claims will be at least ten times greater than those presented after the fighting of 1932. In 1932 both belligerents repudiated their responsibility for damages, but in some cases compensation at from five to twenty per cent of the claim was made. In the present instance, it is difficult to envisage either the Japanese or Chinese paying any of the claims for damage to foreign property. That the Japanese may force China to pay damages is entirely conceivable, but that foreigners of any third country will ever be recompensed seems almost beyond the bounds of possibility.

12. Chinese Leaders.

Mr. Sun Fo, who has been in Moscow for some weeks, left the Russian capital for Paris on February 21st. According to the Japanese press, his mission to Russia has been a failure, but actually nothing is definitely known outside of inner circles in Hankow as to what Mr. Sun has accomplished, if anything, in Moscow. Reports in some Chinese quarters state that he has secured a one hundred million rouble loan for the purchase of munitions, but this has not been confirmed.

A Reuter report of March 11th from Chungking states that the reincarnation of the Dalai Lama has been discovered in the person of a four year old boy living in Chinghai Province near the northeast border of Tibet.

Mr. Hollington K. Tong, veteran newspaper man, has been appointed to the important post of Deputy Director of the Central Publicity Department of the Chinese Government in Hankow. Mr. Tong is an American returned student and the author of the approved biography of Chiang Kai-shek. He was formerly Chief Press Censor for the Chinese Government in Shanghai and performed his duties as nearly to the satisfaction of all concerned as could be expected of a man working in such a capacity.

Mr. T. V. Soong succeeded his sister, Madame Chiang Kai-shek, as Chairman of the Aeronautical Affairs Commission of the Chinese Government on March first. Comment on possible reasons behind the resignation of Madame Chiang was made in our Situation Report of even date. Reports from Hankow state that Madame Chiang still retains membership in the Commission.

General Pai Chung-hsi, Vice-Commander of the 5th Route (Kwangsi) Army, of which Li Tsung-jen is Commander, has been appointed head of the Military Training Department of the National Military Council. Prior to the outbreak of the war, General Pai, though junior in rank to Li Tsung-jen, was generally rated as more able than his chief. Since the war, however, Li has come very much to the fore, and in view of his present extremely important post in command of the Hsuchow area has recently rather overshadowed Pai.

United Press reports from Hankow that recent reports that Chang Hsueh-liang has been assassinated are grossly exaggerated, and that the ex-Manchurian leader, if Chang can be said ever to have led anything except a dissolute life, is still at Hengshan, Hunan, enjoying life and studying the classics in the company of his light-of-love, "a certain Miss Chao."

The Educational and Cultural Society of Tientsin, according to Domei, has offered a prize of one thousand yen for the best scenario on the life of Confucius. The contest, unfortunately, is limited to Chinese, Manchukuoans, and Japanese.

13. Szechwan.

The situation in Szechwan, referred to in our last Comments as decidedly strained because of opposition on the part of Szechwan military leaders to the appointment of General Chang Chun, former Foreign Minister and favorite son of Chiang Kai-shek, to the post of Chairman of the Province to succeed the late Liu Hsiang, has been greatly eased by what appears to be a definite back-down on the part of the National Government. In place of General Chang Chun, General Teng Han-hsiang, a native of Kweichow but for years Liu Hsiang's close associate in the management of Szechwan affairs, was appointed Chairman on March 2nd.

General Teng Hsi-hou, a native of Szechwan and long known as a typical Szechwan warlord, has been appointed to command the Szechwan military forces. According to the newspapers, he has been appointed Pacification Commissioner of the province, but no government order to this effect has come to the attention of this office. General Sun Yuan-liang, another Szechwan native son, who commanded the Central Government 88th Division in the early days of the recent Shanghai fighting, has been appointed as Teng Hsi-hou's Number Two.

Reports from Hankow state that the Szechwan military leaders, greatly pleased over these appointments, have telegraphed the National Government pledging their support.

General opinion in Hankow seems to be that the National Government had to compromise with the Szechwan warlords because of the possibility that the province may become the last stronghold of the Chinese National Government. In this connection, reports have recently appeared that while both the United States and the Soviet Governments have made arrangements to remove their embassies to Chungking in case the Chinese Government is forced to flee from Hankow, the British have no intention of moving their embassy to Szechwan, and in the event the Chinese seat of government is established there Great Britain will be represented only by a secretary.

14. Economic.

(1) Collections of the Chinese Salt Administration.

Figures issued by the Director-General of the Chinese Salt Administration in Chungking on March 16th show that the total collections from salt revenue in 1937 amounted to around Yuan 213,000,000 as against $205,433,000 for 1936 (1936 figures from China Year Book). Collections for the first six months of 1937 exceeded those of the same period of 1936 by $14,700,000, showing what a good year the Salt Administration would have had if peace could have continued. If it had not been for the war, it is estimated that the revenue would have totalled at least $250,000,000.

The statement of the Director-General adds that all foreign loan obligations secured on the salt revenue have been fully met, the payments during 1937 covering both amortization and interest amounting to Pounds 942,823 and U.S.C. 303,187.

While it was not so apparent at the time, it is now easy to see that China was growing steadily stronger financially in 1937, which is probably the principal reason that Japan struck just when she did.

(2) Companies for the Economic Development of China.

Bills for the establishment of the North China Development Company and the Central China Development Company have been approved by the Cabinet and are now before the Diet. It is reported from Tokyo that an Economic Affairs Board and a Chinese Economic Council will be created to supervise these companies when the action of the Diet permits their establishment. The North China Development Company, according to the press, is to have a capital of Yen 350,000,000, one-half to be subscribed by the Japanese Government, the rest from private sources. This company, the head offices of which will be in Tokyo, is to invest in, finance, or control enterprises in transportation, communication, electric power, mining, and the manufacture and sale of salt in North China. According to the Peking Chronicle, the China Development Company, a subsidiary of the South Manchuria Railway, which has been interested in economic enterprises in North China, is to be merged with the North China Development Company.

The Central China Development Company, formed to undertake a program in Central China similar to that of the North China Development Company in North China, is to be capitalized at Yen 100,000,000, also to be subscribed one-half by the Government and one-half by private capitalists. Head offices of the CCDC are to be in Shanghai.

Reports from Tokyo state that Baron Goh, President of the Japanese Economic Federation and member of the Cabinet Advisory Council, may accept the presidency of the North China Company, and that Mr. Masayuki Tani, recently arrived in China as economic adviser to the Japanese forces in North China, may head the South China concern.

According to the Japan Advertiser, while the capital of the North China Company will be Yen 350,000,000, at least Yen 1,600,000,000 will be required to finance the program of the company, which envisages the establishment of at least ten subsidiary organizations to carry out its plans for economic development. It is estimated that the railway program alone will take Yen 300,000,000.

There is no doubt that Japan would be very glad to have foreign capitalists help raise this very substantial sum required for the development of North China, and it looks very much as if the press ballyhoo about the economic situation was inspired with a view to making North China appear to be an attractive field for foreign investment. As previously noted in these comments, however, with China in as chaotic a condition as it is now, and with the prospect of months, if not years, of destructive mopping-up operations to be faced, it seems unlikely that there will be any overwhelming rush on the part of foreign capitalists to sink their money in this country.

Unless they are very foolish, foreign investors will probably take note of the fact that while Japanese politicians, financiers, and economists may sincerely desire to give foreign capital a fair show in China, the Japanese Army cares nothing at all for economic development, and any program along this line is likely to be hampered or entirely blocked on the plea of military necessity.

Mr. Tani, who as noted above was recently appointed economic adviser to the North China forces, soon after his arrival in China on March 10th expressed the opinion that the economic development of North China was not to be entered upon rashly, and that it was imperative that measures for the rehabilitation of the Chinese people should precede the investment of large amounts of capital in economic enterprises.

15. Communications.

(1) Through Freight Traffic Between North China and Manchuria.

A report from Mukden states that a provisional agreement for through freight traffic has been formally signed between the South Manchuria and the Peking-Mukden Railway Companies. The agreement, so states the report, will become effective on April first.

(2) Yunnan-Burma Highway Nearing Completion.

United press reports from Canton the official announcement that the all-weather highway between Yunnanfu and the Burma border will be completed on March 15th. This highway is expected to make possible the shipment of large amounts of munitions to China even if the Japanese should occupy Canton.

(3) Direct Telegraph Service Between Tientsin and Shanghai.

Direct telegraph service between Tientsin and Shanghai was resumed on March 21st by arrangement between the North China Telegraph Administration and the Shanghai Telegraph Office. The rate for telegrams in Roman letters is twenty cents per word, while for Japanese "kana" and Chinese telegrams the rate is twelve cents per word, about one-sixth of the former rates.

(4) Development of Tatsingho Harbor.

Domei reports that as the result of surveys conducted by the South Manchuria Railway Company, it has been decided that the harbor at Tatsingho, Hopei, is better than the harbors of Tsingtao, Tangku, and Chinwangtao, and that accordingly the first-named harbor will be extensively developed. Tatsingho is located on the Hopei coast forty miles due south of Lwanhsien. In order to develop the harbor, which is said to be capable of affording anchorage to ships of 7,000 tons' burden, it will be necessary to build a railway line between Tatsingho and Tangshan. It is estimated that the entire project would cost around Yen 200,000,000.

(5) Highway Between Peking and Tientsin to be Improved.

It is reported locally that the Peking-Tientsin motor road will shortly be improved, a consummation devoutly to be wished as parts of the road are now in very bad condition. The Japanese maintain bus service over the road even in its present state, but if the highway could be put into good condition it would soon become a valuable artery for military and commercial traffic.

For and in the absence of the Military Attache:

David D. Barrett
David D. Barrett
Major, Infantry
Assistant Military Attache

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6-1

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WAR DEPARTMENT

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COMMENTS ON CURRENT EVENTS

March 25 - April 6, 1938

RECEIVED G/2 W.D. MAY 4 1938

1. Japanese War Minister Visits Peking
2. The Foreign Exchange Situation
3. Governments of China
4. Soviet Russia
5. Japan's Policy Toward China
6. Local Conditions
7. Manchukuo
8. Relations of England with Japan and China
9. Relations of the United States with Japan
10. Shanghai
11. Communications
12. Economic
13. Mongolia
14. Sun Fo Appeals for Aid from England and America

1. Japanese War Minister Visits Peking.

General Gen Sugiyama, the Japanese Minister of War, flew to Peking from Tokyo during the first few days of April. The fact that he was in the city was kept a close secret and even the date of his visit has as yet not been disclosed. It is believed, however, that he was here either on the 4th or 5th of April, as officials of the Japanese Embassy state that his purpose in visiting Peking was to settle differences between leaders of the Provisional Government of China and the new Reformed Government of China who were meeting in Peking on those dates.

Japanese Embassy officials refuse to admit, as many believe, that the real reason for General Sugiyama's visit was to confer with General Terauchi, commanding the Japanese troops in North China, concerning the military situation, particularly in Shantung where things have not been going well for the Japanese Army for the past two weeks. In the opinion of this office, it seems unlikely that General Sugiyama would face the risk involved in a visit to Peking for reasons other than those of grave military importance. In any event, in Chinese circles his visit will certainly be interpreted as a definite indication that the Japanese Army is extremely worried over the present situation.

2. The Foreign Exchange Situation.

There has been no change in the policy of the new Federated Reserve Bank as far as the sale of foreign exchange is concerned, which means that the only exchange obtainable in North China is that for which the banks can obtain "cover," in other words the amounts of exchange the banks can acquire from outside sources and are willing to sell. Thus the prospects for the foreign business man appear as discouraging as ever. The hope seems to be entertained in Tientsin business circles, however, that some arrangement will shortly be arrived at to ameliorate the foreign exchange situation in the North. Just what this arrangement will be is difficult to see at the present time.

As hitherto noted in these columns, it is believed that the reason the new bank does not sell foreign exchange is because there is no real money behind the institution. In connection with the apparent lack of assets of the new bank, persistent rumors are in circulation that the Japanese Embassy in Peking is trying to gouge the Yee Tsoong Tobacco Distributors (British-American Tobacco Company) and the Kailan Mining Administration for money to support the bank. Both these companies are making money hand over fist, and numerous ways are open to the Japanese to apply pressure on them. The amount of the sums demanded, if the rumors are true, is not known, but in the case of the Yee Tsoong Tobacco Distributors the Japanese are said to have asked for Yuan 15,000,000.

Whether there is any connection between the strikes in the Kailin mines, mentioned below, and the rumors of the Japanese demands on the company cannot be definitely stated at this time, but it requires no great stretch of the imagination to envisage some relation between them.

As there seems to be a tendency on the part of the foreign press to refer to the new bank as "The Federated Bank of China," which is the correct translation of its Chinese title, it will be so designated in our reports from now on instead of as "The Federal Reserve Bank of China."

3. Government of China.

(1) The National Government.

(a) Chinese Student Union Conference Held in Hankow. The second Congress of the All-China Students Salvation Union opened in Hankow on March 25th. The meeting lasted for three days and according to reports five hundred delegates were in attendance, representing eighteen provinces and sixty-five colleges and universities.

The announced purposes of the meeting were to promote the youth movement in China, to relieve students now in war zones, to carry out war time education, and to encourage Chinese youth to participate in national resistance.

(b) Chungking Anti-Air Raid Tunnel. According to United Press, the authorities in Chungking are preparing to build a million dollar anti-air raid tunnel capable of affording shelter to several thousand persons. The expenses, according to the report, are to be shared by the National Government and local business men. As Chungking has a population of several hundred thousand, space in the tunnel, if it is ever constructed, will be at a premium.

(2) Provisional Government of the Republic of China.

(a) The East Hopei Regime. The previous report by this office that the East Hopei Autonomous Regime was merged with the Provisional Government on February 7th (see our Report No. 9639, page 3) appears to have been not entirely correct. According to the Tientsin North China Star the amalgamation has not been completed but would take place April first. No definite announcement to this effect has, however, as yet appeared. Actually the real facts in the case are difficult to ascertain. According to some reports, the East Hopei Regime was nominally abolished in February but the actual transfer of records, funds (if any), and administrative duties has not been accomplished.

Persistent rumors are in circulation that the abolition of the East Hopei Regime has been delayed by the opposition of the Kwantung Army, which was responsible for the original setting up of this puppet administration. One story is that when Colonel Giga, of the Japanese Special Service Headquarters in Tientsin, went to Tongshan on February 7th to wind up the affairs of the regime he was unable to carry out his mission, as a result of which he was so chagrined that he returned to Tientsin and committed suicide. The story is impossible to confirm and may very well have had its origin in the fact that Colonel Giga's death, reported in the press as caused by illness, occurred shortly after he actually did go to Tongshan supposedly to attent the ceremony of closing out the autonomous regime. As the Japanese North China Command and the Kwantung Army are generally believed to be extremely jealous of each other, it would not be at all strange if the latter was not too willing to see the East Hopei Regime pass out of existence, and the report that Colonel Giga got a very cold reception in Tongshan is entirely credible.

In view of the present state of affairs in North China, the question of whether or not the East Hopei Regime has been abolished is a matter of small importance, but for the sake of keeping the records straight this office will watch carefully for further news on the subject.

(b) Hopei Province Divided into Tao. It was announced on March 29th that Hopei Province has been divided into four administrative districts known as the East Hopei (Chitung), South Hopei (Chinan), Paoting, and Tientsin (Chinhai) Tao. The limits of the districts other than those of the East Hopei Tao (the area of the East Hopei Autonomous Government) are not exactly known at this time. As soon as they are reported a Digest report with map will be forwarded.

(c) Federated Reserve Bank. According to a statement of Mr. Wang Shih-ching, Governor of the new Federated Reserve Bank, branches of the bank are to be opened during April in Tsinan, Tsingtao, Tangshan, and Shihchiachuang. The opening of a branch in Taiyuan is said to be under consideration.

According to Domei, the bank now has in circulation notes to the amount of $20,000,000. Reports are current that due to the recent fall in the value of the Chinese currency, the Provisional Government may decide to refuse to recognize the issues of the Chinese Government banks as on a par with the notes of the Federated Bank, but as yet no reluctance to accept the Chinese bank notes has been observed.

(d) Provisional Government Finances. According to an announcement of the Provisional Government, its finances are in a satisfactory condition, income for March exceeding expenditures by $8,000,000.

(e) Reconstruction Bureau Established. Domei reports that a Reconstruction Bureau under the Executive Committee of the Provisional Government was established April first with Mr. Yin Tung, formerly Managing Director of the Peining Railway, as head of the bureau. The Bureau, so states the report, will engage in river control, (particularly of the Yellow River) road construction, and harbor improvement activities. As the Bureau is reported to have started work with a million dollar budget it appears that a good job has been found for Mr. Yin Tung, long a favorite in Japanese circles.

(f) Tsingtao. According to a Domei report, Tsingtao is to be organized into a Special Municipality under General Chao Chi, Mayor of the city since the Japanese took over.

(3) Nanking Reformed Government of China.

Leaders of the Nanking Reformed Government, to wit, Mr. Liang Hung-chih, President of the Executive Yuan, Mr. Chen Chin-tao, Minister of Finance, and Mr. Jen Yun-tao, Acting Pacification Minister, conferred with heads of the

Provisional Government in Peking on April 4th and 5th. The fact that the meeting was being held was kept secret until April 6th. It was this meeting that General Sugiyama, the Japanese War Minister, is supposed to have flown from Tokyo especially to attend.

According to the Domei reports an agreement was reached at the meeting conferning the procedure by which the Central China regime will be absorbed into the Provisional Government in the near future. Details concerning the exact method to be followed in merging the two governments have not been announced, but it is reported that on the all important question of finance, the national revenues of the Reformed Government will be transferred to the Provisional Government, althouth the former will receive them for the time being.

Local rumors state that there was serious disagreement between the leaders of the two regimes concerning a number of points, particularly questions of finance, involved in the impending amalgamation and it was to settle these differences that the presence of the Minister of War was deemed necessary.

4. Soviet Russia.

(1) Japanese Protest Against Russian Aviators in Chinese Service.

On April 4th the Japanese Ambassador to Russia protested to the Soviet Government against the presence of Russian aviators serving in the Chinese Army, alleging that this constituted intervention in the present Sino-Japanese conflict. The Japanese protest stated that while the Japanese Government had for some time been aware of foreign aviators of various countries serving in the Chinese army, it had not protested to these countries because of lack of proof. As Russian aviators had been shot down in combet in China, however, and one captured alive, the Japanese Government considered that it had sufficient proof. It was also alleged that the captured aviator was a member of the Russian Air Corps.

The Russian Foreign Commissar, Mr. Maxim Litvinoff, is reported to have replied to the protest, pending the issuing of an official statement by the Soviet Government, with a denial that any members of the Soviet military service were serving with the Chinese Army. Mr. Litvinoff also pointed out that private citizens of a number of countries were engaged in flying for the Chinese Government, but as the Japanese themselves referred to the state of affairs now prevailing in China as an "incident" and not as a war, he could not see that Japan had any right to protest if Russian fliers were among those employed by the Chinese.

It is difficult to understand for what purpose this protest was made by the Japanese Government, except possibly for the purpose of making it a matter of official record that the presence of Soviet aviators in the service of China had not been allowed to pass unnoted.

(2) Mr. Sun Fo on Russian Intervention in China.

According to Havas, Mr. Sun Fo stated in an interview in London on March 26th that during his recent sojourn in Russia he had been favorably impressed by the evident desire on the part of Soviet leaders to aid China to the greatest possible extent, but that he did not expect Russia to take any military steps to aid China unless Japan attacks Russian territory. Mr. Sun is also reported to have expressed the opinion that Outer Mongolia is not likely, at the present time, to come to the assistance of China but might eventually do so as Mongolia's position was of the utmost strategic importance.

5. Japan's Policy Toward China.

Referring to the statement made by the Japanese Premier, Prince Konoye, in the Diet on March 22nd that Japan would not yield an inch of the territory now occupied by her armies in China (see our No. 9650, page 9), the only explanation of this seemingly important remark since forthcoming has been a bare statement by the spokesman of the Japanese Foreign Office on March 25th that Prince Konoye's declaration did not mean occupation or annexation of Chinese soil. Just what the Premier did mean the spokesman did not say.

Mr. Koki Hirota, the Japanese Foreign Minister, is reported by Domei to have stated in the Diet on March 22nd that the Chinese must be made to realize that they are inferior to the Japanese in culture as well as arms and must follow the footsteps of the Japanese. If Mr. Hirota was correctly quoted, it seems probable that the statement must have been made for public consumption and not as an expression of his own opinion, for it seems unlikely that any well-educated man could really believe that the Chinese are culturally inferior to the Japanese. Certainly it will be very difficult to convince the Chinese, if not the world in general, of the truth of Mr. Hirota's statement.

6. Local Conditions.

(1) Strike in Kailan Mines.

A strike broke out in the mines of the Kailan Mining Administration on March 23rd and has not yet been settled. All mines of the company in the Linsi, Tangchiachwang, and Chaokochwang areas have been affected, leaving only the Tongshan mines unaffected. The reason for the strike has been given as a change in the method of time keeping. Riots occurred in Tangchiachwang and Chaokochwang on March 24th and 25th in which fifteen are reported to have been killed and thirty or forty wounded. Thus far no foreigners have been injured nor has the mine property been damaged. It was reported several days ago that the dock workers in Chinwangtao had demanded a raise in pay, failing which they would go on strike.

The situation is generally regarded as very serious. Several of the families of the foreign staff have left the troubled areas, and a British war vessel has arrived in Chinwangtao.

The opinion is expressed in some quarters that the Japanese are behind the strike, but no definite indications to this effect have come to the notice of this office. Japanese hopes to obtain control of the mines and a desire to promote the sale of Manchurian coal are given as possible motives for the alleged part of the Japanese in the strike.

(2) Attempted Assassination of Mr. Wang Ke-min.

Mr. Wang Ke-min, Chairman of the Executive Committee of the Provisional Government, was fired on by several unidentified persons while riding in an automobile on the streets of Peking on March 28th. A Japanese friend of Mr. Wang's who was in the car with him was wounded in the face and arm, but Mr. Wang escaped unhurt. Wild rumors were in circulation on the evening of the 28th that he had been killed, which rumors proved to be grossly exaggerated next day when Mr. Wang exhibited himself to newspaper men to prove himself alive.

(3) Japanese Population of North China.

Domei reported on March 26th that since the outbreak of the war around 35,000 Japanese civilians have come into North China, making the total number in this area, outside of Chahar and Shantung, around 50,000. Of these 20,000 are reported to be living in Tientsin, 10,200 in Peking, 3,000 in Shihchiachuang, 1,000 in Paoting, and 700 in Tsanghsien (south of Tientsin.

7. Manchukuo.

(1) Manchukuo Fails to Pay for Chinese Eastern Railway.

As noted in paragraph 5 on page 6 of our Report No. 9650, the Manchukuoan Government announced on March 18th that this money would not be paid unless the Soviet Government settled certain alleged outstanding accounts.

According to Tass, the Soviet Government has protested to Manchukuo over this alleged violation of the agreement regarding the sale of the Chinese Eastern Railway. Tass states that the Soviet Government claims that Japan has guaranteed payment for the railroad at the price stated in the agreement.

The instalment due is reported to be 6,000,000 yen, and Manchukuo claims that the Soviet Government owes her almost that amount for transport charges, telegraph tolls, and unpaid taxes in connection with the Jalainar coal mines located in north Hsingan Province, Manchukuo, and formerly managed by the Chinese Eastern Railway. If the Soviet really owes this money, it would appear that Manchukuo has considerable justification in refusing to pay the last instalment on the railway.

(2) Manchuria Requires 400,000 Workmen from China this Summer.

According to the Tientsin North China Star, a Tientsin labor agency has been authorized to issue permits for 400,000 Chinese laborers to enter Manchuria this summer. The report further states that only 380,000 were required last year, and of these 70,000 could not be sent due to interruption of communications. No trouble is anticipated in filling this year's quota. The laborers are employed mostly on road building and general construction work, and are said to receive from seventy cents to one dollar and twenty cents Mex. per day, making it possible for a laborer, after paying all expenses for transportation and maintenance, to save about $60 during the season.

8. Relations of England with Japan and China.

The British Ambassador to China, Sir Archibald Clark Kerr, and Lady Kerr left Canton by rail on April 2nd and arrived in Hankow on April 4th. According to press reports, Sir Archibald will fly to Chungking and present his credentials to Mr. Lin Sen, President of the National Government, on April 9th.

Mr. E. L. Hall-Patch, Economic Adviser to the British Embassy in China, arrived in Tokyo on March 25th. Some reports have circulated that Mr. Hall-Patch's visit is connected with the question of the control of the Chinese

Maritime Customs, while others have stated that he has been summoned by the British Ambassador in Tokyo to consult with him about the Chinese currency situation.

Reuter reports that the Japanese Embassy in Peking has protested to the British Embassy here against the alleged illegal use of the British flag in the war zones of Honan and Shansi. According to the protests, on several occasions Chinese soldiers have raised the British flag over houses from which they have fired on the Japanese, and the Japanese were unable to return the fire out of respect for the British flag. The protest requests the British authorities to prohibit the Chinese Army from using the British flag and states that if such instances occur again, the Japanese military authorities will be forced to take "a firm attitude."

Three British-Japanese "incidents" have occurred since our last report. On March 29th, a Japanese officer in Chinese clothes is alleged to have threatened Major E. T. Heslop, commanding the detachment of the Durham Light Infantry in Shanghai, with a revolver, when Major Heslop prevented persons participating in a Japanese-sponsored parade from entering the Settlement. When Major General Telfer-Smollett, Commanding the British Forces in Shanghai, protested against this incident, his protest was curtly rejected by General Hata, the Japanese commander in Shanghai, on the grounds, according to Reuter, that the protest was "personal, unverified, and prejudiced." According to Reuter, British military personnel in Shanghai has been given permission to take "suitable" action to defend themselves if struck or threatened by Japanese soldiers or military police.

On April 2nd a British subject, Mr. C. J. dos Remedios, is reported to have been beaten up by two Japanese civilians in Hongkew, and Mr. Alexander Mackie, also a British subject, is stated to have been treated in a similar way by Japanese soldiers in the same district a few days later.

Reuter reports from Yokohama that hand-bills were recently scattered over the harbor in that port, in Osaka, and in Nagoya, urging Japanese stevedores not to unload British cargo. The hand-bills are said to have been circulated by a Japanese patriotic society.

9. Relations of the United States with Japan.

Mr. V. F. Meisling, an American reporter employed by the North China Daily News, was assaulted by a Japanese sentry and beaten about the chest on March 28th in Shanghai.

Mr. Meisling was in the act of taking a photograph of the New Asia Hotel decorated to celebrate the establishment of the Reformed Government of China in Nanking. The American Consulate General has protested against the alleged outrage. The incident is an excellent illustration of the acuteness of the cameraphobia now prevalent among Japanese. The very sight of a camera in the hands of a person other than a Japanese seems to bring out the worst in them.

According to Reuter, the Tokyo press on April first featured a story that a mysterious warship had appeared off one of the islands of the Carolines group on March 27th in the early hours of the morning and had turned a searchlight on the island for several minutes, after which the ship departed. The Japanese press is said to have considered the reported incident as irritating and, jumping to conclusions, has connected it with the recent United States Navy maneuvers which were reported to have extended to the boundaries of the Japanese mandated areas. The press further alleges that the United States Navy is now specializing in simulated landing operations.

The entire affair is very trifling but is considered worthy of mention because it shows how quickly public opinion in Japan, now said to be favorable to the United States, might be turned against us.

10. Shanghai.

Barring several attacks on British citizens by Japanese soldiers and civilians, the beating up of an American by a Japanese sentry, two bomb throwing incidents, and the shooting of a Japanese gendarme in the leg, life in Shanghai has been comparatively quiet during the period of this report. One of the bombs, on March 23rd, was thrown on the premises of the British-owned Chinese vernacular paper The Standard, making the third bombing of this publication; while the second bomb was thrown on March 29th at the Italian Consulate. Two Chinese were wounded in The Standard bombing, but no one was hurt by the one thrown at the Italian Consulate. The shooting of the gendarme occurred in Hongkew on March 26th, and is reported to have taken place when a Japanese naval sentry fired at a truck which failed to stop at his command.

It was announced in Shanghai on March 26th that from that date the permission of the Japanese Army and the Naval Special Service Department would be required in all land transactions in the area to the east of a line extending from Kiating to Chelincheng by way of Nansiang, Lunghuachen, Tsipaochen, and Shanghai hsien. The order applies to transfer of ownership, establishment of mortgages, transfer of title deeds, agreements for management, transfer of power of attorney, and the erection of buildings. The object of this order is said to be to prevent unscrupulous persons from making money by squeezing the Chinese population in land speculations.

An agreement, announced in the press on March 26th, has been made between the Japanese military authorities and the United States Marines in Shanghai by which "small numbers" (nothing more definite has as yet been announced) of armed Japanese troops will be permitted to accompany Japanese supply trucks passing through the American sector. Thus the Japanese camel has got his head under the Marine tent in Shanghai.

11. Communications.

(1) Opening of Railway Between Peking and Chengte.

Railway communication between Peking and Chengte, Jehol, was opened on April first. The railway is run in two sections, one from Peking to Kupeikou and the other from Kupeikou to Chengte (Jehol City). The two sections are entirely separate, one being referred to as the "Peking-Kupeikow Railway" and the other as "an unnamed railway." The entire line, however, was constructed by the South Manchuria Railway. Very little authentic information has been published concerning the line. Such as appears will be carefully collected and a Digest report submitted as soon as possible.

The construction of the railway is said to have been a difficult piece of engineering work, entailing the boring of sixteen tunnels and the erection of one long bridge.

When the Assistant Military Attache inquired about buying a ticket to Chengte a few days ago he was informed that the Kupeikow-Chengte section was temporarily closed on account of floods. Rumors say that bandit attacks have made it impracticable to run passenger trains for the present. Mr. George Gorman, editor of the Japanese-controlled Peking Chronicle, who left to make an inspection trip over the line a few days ago, has not returned and no word has been received from him.

(2) Traffic on Tsingtao-Tsinan Railway.

According to the North China Star, one passenger train per day is now in operation on the Kiaotsi Railway between Tsingtao and Tsinan, but no freight is being carried.

(3) Through Service on Peking-Mukden Railway.

Through passenger and freight service between points on the Peking-Mukden Railway and many points on the railways operated by the South Manchuria Railway Company in Manchuria was announced on April first.

12. Economic.

(1) Sino-Japanese Economic Pact.

On March 26th a "protocol," as Domei refers to it, for the establishment of a Sino-Japanese Economic Council was signed in Peking by representatives of the Japanese military forces in North China and officials of the Provisional Government of China. The announced purpose of the Council is to guide the economic development of North China under Sino-Japanese collaboration.

(2) Restoration of Shantung Coal Mines.

According to The Japan Advertiser, the Managing Director of the Japanese Shantung Mining Company, which will operate the Japanese coal mines in that province, has stated that it will require at least two years and the expenditure of 15,000,000 yen to restore the mines in the Poshan and Tzechwan areas, near the Kiaotsi Railway, to producing condition.

(3) Price of Chinese Gold.

According to reports in the Tientsin foreign press, gold ingots in that city are now being sold in exchange banks and jewelry shops at the price of $155.00 Mex. per ounce, the highest price in twenty years.

13. Mongolia.

Prince Yun, titular head of the Inner Mongolian Autonomous Government, died in Pailingmiao at the age of sixty-eight on March 24th. It is understood that he is to be succeeded by Teh Wang, Vice-Chairman of the Inner Mongolian Autonomous Political Council. As Teh Wang is the real head of the new Mongolian Government, Prince Yun having been merely a figurehead, his elevation to nominal as well as actual control would be a natural step.

14. Sun Fo Appeals for International Aid.

Havas reports from London that Mr. Sun Fo, Chairman of the Legislative Yuan of the Chinese National Government, stated in an interview on March 26th that the best and most effective way in which the Western Powers could help China would be by granting credits and enabling her to obtain modern weapons, as well as supplying her army needs. Mr. Sun declared, so states the report, that although China must purchase the most of her munitions abroad, she is now making small arms and even trench mortars in her own arsenals. In concluding his interview, Mr. Sun said:

> "It is necessary that Western Powers realize that our struggle is the struggle of all democracies against aggressive nations so that any financial or material aid that they can give China will only contribute towards the triumph of the principle of hostility to the use of arms in the settlement of international problems."

For and in the absence of the Military Attache:

David D. Barrett
David D. Barrett
Major, Infantry
Assistant Military Attache

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COMMENTS ON CURRENT EVENTS

April 7 - May 4, 1938

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1. Governments of China
2. Soviet Russia
3. Chinese Maritime Customs
4. Japanese Policy Toward China
5. Relations of England with China and Japan
6. Relations of United States with China and Japan
7. Shanghai
8. Communications
9. Economic
10. Mongolia
11. Manchukuo
12. Chinese Leaders
13. Szechwan

1. Governments of China.

(1) Central Government.

(a) Loans. According to Reuter, Mr. Sun Fo, Chairman of the Legislative Yuan, admitted in London on April 15th, in connection with the rumor that he had been trying to raise a loan in England, that the chances the chances of negotiating a loan for China or any other country at the present time were hopeless because of the general confusion of world conditions. On the other hand, Mr. Sun is reported to have declared that there is a possibility of arranging commercial credits in England for China, but such credits would be not so much for munitions as for materials to repair the cruel destruction which China has suffered during the war.

Transocean reported from Hankow on April 23rd that the Ministry of Finance would issue a loan on May first for the purchasing of munitions of war. The loan, according to the report, will be issued in two sections, the first for 500,000,000 Mex. dollars, payable in thirty years at six per cent interest. The second section is to be for U.S. $50,000,000 and Pounds 10,000,000, bearing interest at five per cent and payable in fifteen years.

(b) Changes in Kuomintang Personnel. Reuter reported from Hankow on April 9th that Mr. Ku Meng-yu, close associate of Wang Ching-wei, recently appointed Vice-Director of the Kuomintang, has been appointed Minister of

Publicity of the Kuomintang. Mr. Hollington Tong, Vice-Minister of Publicity, is to remain in charge of international publicity.

Mr. Chu Chia-hua has been appointed Secretary General of the Kuomintang, replacing Mr. Yeh Chu-tsang who has resigned because of ill health. As Mr. Chu is reported to be scheduled to leave shortly for Europe as a good-will emissary of the Chinese Government, it is understood that Mr. Kan Lai-kuan, Deputy Secretary General, will act in place of Mr. Chu. Mr. Kan was formerly Vice-Minister of the Interior and is another close associate of Wang Ching-wei, hence these two appointments are generally interpreted as an indication that Mr. Wang's influence in Hankow is on the increase.

(c) Chinese Art Treasures Saved. According to a Reuter report from London, the Chinese Palace Museum treasures which were shipped from Peking to Nanking in 1932 have been safely conveyed to a place of safety in Western China. According to the report, the treasures were conveyed from Nanking in 19,000 cases on board a British vessel, but it seems hardly possible that there could have been so many cases as there were only ten thousand shipped from Peking.

Most foreigners who have visited Peking will follow the fate of the palace treasures with interest. It seems probable that these priceless objects of art must inevitably suffer damage from breakage and deterioration in storage as well as from inroads by those entrusted with their care. In any event it will probably be many a long and weary day before these treasures, or what is left of them, are ever again displayed to the public.

(d) Generalissimo Lifts Ban on Compulsory Religious Education. It was announced from Hankow on April 7th that Chiang Kai-shek has rescinded the law, in force for ten years, forbidding compulsory teaching of religion in Christian schools. The reason for the lifting of the ban is reported to be a desire to recognize the support which foreign missionaries have given to China since the war. While this good-will gesture will certainly be well received in mission circles, particularly by British and American missionaries, it was probably unnecessary as at the present time Chiang seems to have most of the foreign missionaries solidly behind him. American Protestant missionaries, particularly, have been ardently on his side ever since he joined the Methodist Church after his marriage to the former Mei Ling Soong.

(2) Provisional Government of China.

(a) Visit of Mr. Wang Ke-min to Tokyo. Mr. Wang Ke-min, Chairman of the Executive Committee of the Provisional Government of China, arrived in Shanghai by air on April 28th. It is presumed that he left Peking the same day, but as his departure was kept a secret until after his arrival in Shanghai this is not definitely known. The announced purpose of Mr. Wang's trip to Shanghai was to repay the visit recently made to Peking by officials of the Reformed Government (Report No. 9656, Par. 3 (3)), and was said to be without political significance. While in Shanghai Mr. Wang met with Mr. Liang Hung-chi and Mr. Chen Chin-tao, respectively Chairman of the Executive Yuan and Minister of Finance of the Reformed Government of China. According to Domei reports, in spite of Mr. Wang's statement that his visit to Shanghai had no political meaning, considerable progress was made in formulating plans for the consolidation of the Provisional and Reformed Governments which it is generally understood will be effected as soon as Hsuchow is taken and through communication restored between Shanghai, Nanking, and Peking, via the Tsinpu Railway. Mr. Wang, in addition to consulting with the officials of the Reformed Government, is reported to have presented $200,000 for the relief of the poor in Central China.

On May first Mr. Wang arrived in Tokyo by air, although again the time of his departure from Shanghai was not announced. According to press reports he was accompanied by Major General Kita, Chief of the Japanese Military Mission in North China and generally credited with being chiefly responsible for the detailed plans in connection with the establishment of the Provisional Government. Mr. Wang's announced purpose in visiting Tokyo is to thank the Japanese officials and civilians who co-operated in the establishment of the Provisional Government in January of this year.

If Mr. Wang's reasons for visiting Shanghai and Tokyo were other than those reported in the public prints, they are not known to this office.

(b) Pact on Advisers for Provisional Government. According to a Peking despatch to the Tokyo Asahi, so states the Japan Advertiser, the Japanese Government will soon send a military, administrative, and legislative adviser to the Provisional Government of China. These advisers are to have, respectively, four, five, and four assistants. According to the Asahi, the advisers are to guide and assist the new government, but are not to assume actual leadership. Salaries of the advisers are to be paid by the Japanese

Government, but the provisional regime will meet expenses incurred in the performance of their duties. According to the report, Mr. Michio Yuzawa, former Home Vice-Minister now serving as adviser to the Japanese Army in North China, probably will be the administrative adviser, and Mr. Shigeo Otatsu, former director of the Manchukuo General Affairs Board, will be the legislative adviser. Selection of the military adviser is to be delayed.

If this report is true, it looks very much like a step in the assumption by Japan of complete control over the conquered parts of China just as took place in Manchukuo, where the advisers run the government and the Chinese officials have not even the shadow of power.

(c) Establishment of Ministry of Industry. The Provisional Government has established a Ministry of Industry, with Mr. Wang Yin-tai, Minister of Foreign Affairs under the Chang Tso-lin regime in 1927, as Minister. Mr. Wang has studied law both in Japan and Germany, is a graduate of the University of Berlin, and is generally rated as a very able man. Madame Wang is a German lady who takes a prominent part in philanthropic work in Peking, and both she and her husband are popular in foreign circles. It is reported that Mr. Wang will soon be appointed a member of the recently established Sino-Japanese Economic Council.

According to the Peking Chronicle, seven bureaus will be established under the new Ministry: General Affairs, Agriculture, Industry, Commerce, Forestation, Fishing, Pasturage, and Mining.

Now that the Ministry of Industry has been established, it is reported that the new government will shortly form a Ministry of the Interior.

(d) Provisional Government's Program for Relief of Farmers. According to Domei, the Provisional Government has decided to disburse one million dollars Mex. for the relief and rehabilitation of rural districts in North China. According to the reports, one-half of this sum is to be distributed through the Ministry of Rehabilitation of the Provisional Government and the other half through the Hsin Min Hui. The report further states that Mex. 200,000 has already been expended for the purchase of millet in Manchukuo, which is to be distributed as direct relief in northern Honan where conditions are particularly bad. Most of the relief is to take the form of loans to farmers. These loans are to run for a year at four per cent, no security being required other than the guarantee of the village chief of the farmer making application for the loan.

If the above report is based on actual fact, the news is good propaganda for the Provisional Government, but the amount to be expended is so small that it cannot be more than a fraction of a drop in the bucket, even if the full amount ever reaches the needy, which sceptical persons will be very much inclined to doubt.

(e) Provisional Government Opens Military College. Reuter reports that General Chi Hsieh-yuan, Minister of Public Safety of the Provisional Government, has been appointed President of the Military College of the Provisional Government in Tungchow. According to the report, entrance examinations for five hundred students were conducted on April 25th and the results were to have been announced on May 3rd. Upon graduation students are to be assigned as officers in the defense corps now being recruited. It is stated that a second batch of students will be admitted during the summer.

According to reports the school will open on May 10th. If and when it begins to function, a digest report thereon will be rendered.

(f) Provincial Administration for Honan. According to press reports, a Honan Provincial Administration will shortly replace the Honan Autonomous Administration which was formed with headquarters at Changteh after the Japanese occupation of northern Honan. The new provincial administration, state the reports, will be headed by Mr. Hsiao Jui-chen, Chairman of the present Autonomous Administration. As the Japanese now control only twenty-five out of the one hundred and thirteen hsien in Honan, it is stated that Taming hsien, in southern Hopei, will be incorporated into the new Honan administration. No announcement has as yet appeared of the inauguration of the new regime in Honan.

(g) East Hopei Tao now in Operation. The Peking Chronicle states that the Chitung (East Hopei) Tao Shu, or Circuit Administration, was opened in Tangshan on April 10th, and that the Paoting and Chinan (South Hopei) Circuits are to open in the near future. That the East Hopei district, which was formed from the area included in the Japanese-sired East Hopei Autonomous Government, will probably be the favored child in the Hopei administration for some time to come is indicated not only by the fact that it is the first Tao government to get under way, but also by the report that forty former officers of East Hopei were recently given jobs in the Administration Commission of the Provisional Government in Peking, while one hundred and thirty others have obtained positions in the headquarters of the Hopei Provincial Administration in Tientsin.

From present indications, the Chinan or South Hopei Tao will be incorporated into the Honan Provincial Administration, but the status of this Tao is not entirely clear at this time.

(h) Provisional Government to Establish Bank in Shanghai. According to a Domei report from Tokyo, the establishment of a bank of issue in Shanghai to provide new currency for Central China is being considered by officials of the Federal Reserve Bank in Peking. The new institution, Domei states, while affiliated with the Peking Federal Reserve Bank, is to issue its own currency which would not be exchangeable at par with the Federal notes but would have a value of its own. Proponents of the plan to open the new bank are said to take the ground that present circumstances prevent the circulation of Federal Reserve Bank notes in Shanghai without possible devaluation of the Peking issue of such notes.

(3) Reformed Government of China.

(a) Local Administration System. According to reports in the Japanese press, the new Reformed Government of China on April 20th announced several important decisions concerning the local administration of the areas under its control. These reports state that provincial governments will shortly be established in Kiangsu, with the provincial capital at Soochow, in Chekiang with the capital at Hangchow, and in Anhui with the capital in a city to be decided upon later. Shanghai and Nanking, according to the report, are to be made into special municipalities. Within provinces the same system of "tao" or districts is to be used as has recently been instituted in Hopei Province.

United Press reports from Shanghai under date of April 26th that the Shanghai Ta Tao (Great Way) Administration was incorporated into the Reformed Government on April 23rd, and that Mr. Su Sih-wen, former head of the Ta Tao Government, has become the Mayor of Greater Shanghai with the official title of "Chief of the Shanghai Special Municipal Administration of the Reformed Government of the Republic of China." The five-barred flag of the Reformed Government has replaced the yellow flag of Ta Tao over the Shanghai Municipal Government buildings.

The Nanking "Autonomous Commission," formed after the capture of Nanking, was dissolved on April 24th, on which date the Municipal Government of Nanking was established. Mr. Jen Yuan-tang, Minister of Public Security of the Reformed Government, has been appointed to act concurrently as Mayor of Nanking.

2. Soviet Russia.

According to a Reuter despatch from Moscow, on April 25th the Soviet Embassy in Tokyo handed the Japanese Foreign Office a communication described as "an appeal to Japan to come to an agreement." Reuter quotes the Russian Tass News Agency as authority for a statement that this appeal followed the submission of a series of proposals by the Soviet Government to settle all outstanding Russo-Japanese issues, to which proposals the Japanese Government is stated to have replied with a series of counter-proposals. Tass states that the Soviet proposals to Japan included the following:

(1) Surrender of ships and the mail plane now held by the Japanese.
(2) Release of various Soviet citizens under Japanese detention.
(3) Immediate payment of the overdue instalment of the purchase price of the Chinese Eastern Railway.

In exchange for the above, the Soviet Government is reported to be willing to concede the following:

(1) Release and deport to Japan eight Japanese held as reprisals.
(2) Release several Japanese sailing vessels now held.
(3) Give favorable consideration to the Japanese demands regarding concessions in Sakhalien.
(4) Resume parcel post services with Japan.
(5) Retain the Japanese consulate in Sakhalien which the Soviet desired closed.

The Japanese reply, according to Tass, stated that the Soviet steamers would be released after paying fines, while the question of the mail plane and the payment of the railway instalment would have to be referred to the Manchukuo Government. As to the other offers, the Japanese reply is said to have stated that more specific concessions must be made, and that the Soviet must agree to the retention of the Japanese consulates at Harbarovsk and Blagovestchensk. Japan is also said to have demanded that Russia sign the long-disputed fisheries convention.

While this gesture on the part of the Soviet Government to effect a settlement of issues outstanding between Russia and Japan seems likely to have little result, it is of interest as a recapitulation of the points of friction between the two countries. As a matter of fact, while press reports almost daily carry stories of increasing tension between the Soviet and Japan, it is surprising to note of what little importance most of the points of friction between the two countries appear to be. It would seem that the differences between the two nations could easily be settled if both sides sincerely desired to do so. The fact of the matter appears to be that there is really no good reason for Japan and Russia to fight except for the mutual hatred, fear, and distrust which they bear toward one another, and that if the time ever comes when either side has made up its mind that it is going to fight the other, no casus belli need be sought.

Generally speaking, the attitude of the Soviet appears more conciliatory than that of Japan, which is probably the reason that most observers of the situation are of the opinion that Russia will certainly not fight Japan now unless the latter attacks. Reuter reported from Shanghai on April 14th that travel agencies in that city had been notified that visas across Siberia had been suspended, a report which gave rise to rumors that Soviet troops were being moved in large numbers toward the Manchurian border. According to the local Soviet Embassy, however, no such suspension of visas was put into effect, and an American and his wife who left here May first were informed that they could obtain a visa to cross Siberia in Harbin.

The latest development in the matter of the closing of Soviet and Japanese consulates is that the Soviet consular offices in Otaru (Hokkaido) and in Tsuruga have been closed. Tokyo, however, has refused the Soviet request for the closing of Japanese consulates in Harbarovsk and Blagovestchensk. According to a report from Tokyo dated May 3rd, the Russian authorities in the latter city have informed the Japanese acting consul that they will no longer accept code telegrams from him, an action which is said to have aroused considerable resentment in Japan. To an impartial observer, the Soviet appears entirely justified in desiring Japan to close her consulates in these two places, where Japanese consular officials appear to be stationed solely for the purpose of spying upon Russian military activities.

3. The Chinese Maritime Customs.

The announcement on May 2nd in London and Tokyo of the terms of the Anglo-Japanese agreement concerning the Chinese Maritime Customs, which agreement is to remain in force during the period of hostilities between Japan and China, constitutes the most important political event during the covered by this report. This period, incidentally, has been notable for the few important events which have occurred therein, marking what is believed to be the quietest month, politically, since the outbreak of hostilities. The text of the agreement concerning the Customs is made the subject of a special accompanying report. As a matter of fact, there has actually been no agreement concluded. A statement has simply been issued by the British Government that it will not object to certain measures concerning the regulation of the Chinese Maritime Customs which the Japanese Government proposes to take during the period of the present hostilities.

Prior to the formal announcement of the intention of the British, and also of the American and French Governments, not to object to the proposed Japanese measures concerning the Customs, the Japanese press had featured reports that control of the Customs would be taken over by the Reformed Government of China. It will be noted that no mention is made in the statement of the British Foreign Office of any intention on the part of Japan to permit such a step, although a Superintendent of the Shanghai Customs has been appointed by the Reformed Government. The appointment of Superintendents of Customs, however, has long been recognized as a right of the Chinese Government, and since the only Chinese Government functioning in Shanghai is the Reformed Government, the appointment by this administration of a Superintendent of Customs could scarcely be objected to.

The general impression in foreign circles is that the new arrangement will not harm China, but will rather help her by strengthening her credit position abroad. The Chinese, of course, will object to it because it implies tacit assent on the part of England, France, and the United States to the deprivation of China of about thirty per cent of her customs revenue. That it also implies tacit recognition of the Reformed Government of China by these three powers, however, as some Japanese press reports claimed the agreement would amount to, seems hardly warranted by the facts.

Now that the question of the control of the Customs in the area now occupied by Japan in China is out of the way, for the time being at least, a general revision of tariff rates by the Provisional and Reformed Governments of China may be expected in the near future. Such revision will of course be made with a view to favoring Japanese trade interests.

A step backward in China's Customs history was recorded on April 6th when likin, abolished since 1931, was re-established in the extra settlement areas of Shanghai. The tax was levied, according to press reports, by authority of the Japanese-backed Greater Shanghai Municipal Government at barriers established on the boundaries of the International Settlement and the French Concession. The tax is levied on some forty articles, the most important of which are gasoline and kerosene, on which the likin is reported to be ninety and sixty cents per five gallons, respectively. Besides hitting the foreign oil companies particularly hard, the tax has the effect of generally raising the cost of living and reducing trade by limitation of purchasing power. The establishment of the likin tax looks very much like an effort on the part of the Japanese to make life for both Chinese and foreigners in Shanghai as difficult as possible.

4. Japanese Policy Toward China.

(1) Japanese Minister-at-Large Visits Peking.

Mr. Masayuki Tani, Minister-at-Large of the Japanese Government stationed in Shanghai, visited Peking from April 9th to April 20th, on which latter date he returned to Shanghai. Press announcements of the purpose of Mr. Tani's visit to Peking were too vague to be worth repeating. The general impression in foreign circles was that his visit had to do with the eventual amalgamation of the Provisional and Reformed Governments of China. This event, according to a statement made by Mr. Tani in Tientsin prior to his arrival here, will take place when the Tsinpu Railway is completely in Japanese hands.

Members of foreign diplomatic missions in Peking had the opportunity of meeting Mr. Tani at a cocktail party given by the Counsellor of the Japanese Embassy. Mr. Tani appears to be a polished man of the world and his command of English is excellent, but his general manner seems too smooth to give an impression of sincerity.

(2) Peace Talk.

Recent reports from London that the Japanese had approached the British Government with a view to acting as mediator in the present war appear to have had no foundation and were emphatically denied in Tokyo. Many well informed persons in foreign circles here, however, are of the opinion that a strong desire for peace exists not only in political but in some military quarters in Japan. An American newspaper correspondent whose reports have hitherto proved reliable has informed this office that he knows positively that General Kita, head of the Japanese Special Service Mission in North China, recently approached two Chinese of high standing in Peking who are not connected with the Provisional Government on the subject of using their good offices to induce the Chinese Central Government to agree to peace parleys.

The Japanese military spokesman in Peking yesterday told the Assistant Military Attache that not only many important civil officials of the Japanese Government but a number of high ranking Army officers were "determined," to quote the word used by him, that peace should be made.

In spite of the fact, however, that many Japanese of importance probably desire peace, it seems out of the question that peace can come in the near future. All reports from parts of China where the Japanese are not in control state that the Chinese determination to carry on the war to the bitter end seems to be growing every day, and in view of the present military situation in which the Chinese, while not winning any victories, still seem to be holding the Japanese very well on all fronts, it seems extremely unlikely that the Chinese Government would listen to proposals to discuss peace terms unless Japan were willing first to make concessions which would be tantamount to an admission of defeat. Since Japan has hitherto won all the victories, she certainly cannot be expected to submit to the loss of face which any yielding to Chinese demands would entail. Thus the situation as far as hope for peace is concerned appears to be at an absolute deadlock.

5. Relations of England with China and Japan.

(1) K. M. A. Strike Settled.

The strike in the mines of the Kailan Mining Administration at Chaokuchuang, Linsi, Tangchiachuang, and Tangshan (Report No. 9656, par. 6, item 1) has been settled and the workers returned to work on April 22nd. The terms on which the strike was settled involve considerable concessions to the strikers. These concessions include a raise in wages of twelve cents per man per day, an increase in the annual bonus paid to miners, the issue of certain relief supplies, and the suspension for the time being of the proposed new system of time keeping which was alleged to be one of the principal causes of the strike.

Opinion in responsible foreign circles in Tientsin is agreed that the Japanese were behind the strike, although definite proof to this effect cannot be obtained. The fact, however, that the Japanese military headquarters in Peking issued a statement denying rumors that Japanese interests were in any way connected with the strike seems significant. Also significant was the attitude taken by the Tientsin Yung Pao, a Chinese language newspaper run by the Japanese military in Tientsin, which consistently favored the strikers. It also appears worth noting that the strike continued, in spite of several parleys between the workers and the company, without apparent hope of settlement until a proclamation was issued by the Japanese Special Military Missions at Tangshan and Tientsin on April 21st urging the striking miners to accept the terms of the company and return to work. This proclamation also threatened punishment to those who did not return to work. Next day the strike ended.

It now appears that if the Japanese backed the strike they were actuated by a desire to further plans for the ultimate assumption of control of the K.M.A. and not by any desire to promote the sales of Manchurian coal, as the Japanese need all the coal that the Kailan mines can produce. A factor of less importance in the situation is a desire of the Japanese to get rid of the company police force which maintains order in the mine areas and substitute Japanese gendarmerie or troops for these police.

(2) Detention of the Tungwo.

The British Yangtze River steamer Tungwo, owned by Jardine-Matheson & Company, was detained by Japanese military authorities on April 26th off Tsungming Island in the mouth of the Yangtze and forced to proceed to the town of Tsungming, on the southern part of the island. The Japanese alleged that a shot had been fired from the vessel. The steamer was boarded and searched, and during the search a Chinese member of the crew was wounded by a bayonet in the hands of a Japanese.

The incident is reported to have caused considerable excitement in British official circles in Shanghai. Following a demand by the British Consul General in Shanghai that the vessel be returned, the British gunboat Cricket is reported to have cleared for action and prepared to proceed to Tsungming Island to back up the demand. Further reports state that the Cricket was prevented from proceeding to Tsungming by a promise from Admiral Hasegawa, commanding the Japanese fleet in Chinese waters, that he would take steps to see that the incident was settled by peaceful means. After negotiations between the British and Japanese Consuls General in Shanghai, release of the vessel was ordered by the Japanese on April 27th and another Anglo-Japanese incident passed into history. The British Consul General has promised an investigation of the alleged firing from the Tungwo.

(3) British Ambassador Presents His Credentials in Chungking.

The new British Ambassador to China, Sir Archibald Clark Kerr, presented his credentials to Mr. Lin Sen, President of the Chinese National Government, in Chungking on April 12, 1938. Sir Archibald made the trip both to and from Chungking via Canton and the Canton-Hankow Railway. He arrived safely back in Hongkong on April 28th.

(4) British Financial Assistance to China.

A Havas report from London dated April 14th stated that the British treasury had been approached, presumably through Mr. Sun Fo, on the subject of floating a loan for China. The result of this attempt to raise funds in England, assuming that it was made, may be judged from the statement made in London on April 15th by Mr. Sun Fo (quoted in the first paragraph of this report) concerning the possibility of obtaining loans in the present state of world affairs. According to Havas, British unwillingness to lend China money is based on the hope of the British Government that it will eventually be able to act as a mediator between Japan and China and a British loan to China might diminish the possibilities of mediation.

Reuter reported from London under date of April 14th that the British Financial Secretary of the Treasury had stated in the House of Commons on that date that if in the present circumstances the Chinese Government would find it possible to obtain long-term credits from British financial institutions, any request for the Chancellor of the Exchequer's consent to such an operation would be sympathetically considered. The report further stated that the British Prime Minister declared in the House of Commons on the same day that the Chancellor of the Exchequer had under consideration the matter of encouraging financial agencies in England to grant long-term credits to China. It was probably these statements which made Mr. Sun Fo feel justified in declaring that while the prospects of obtaining a loan in England were poor at present, the outlook for securing long-term credits for materials to be used in the rehabilitation of China was much brighter.

(5) Great Britain to Take no Positive Steps in Far East, says Mr. Tani.

United Press, under date of April 27th from Shanghai, credits Mr. Masayuki Tani, the Japanese Minister-at-Large, with a statement to the Japanese press that there is no possibility of England taking positive steps concerning her Far Eastern policy as a result of the Anglo-Italian accord. Mr. Tani is further quoted as saying, "Japan is enjoying an absolute superiority in the Far East, a superiority which is comparable to Italy's influence in the Mediterranean. As pursuing policies based on realism, no friction will occur between Britain and Japan."

This office is inclined to agree with Mr. Tani.

6. Relations of United States with China and Japan.

(1) American Salvation Army Officer Killed.

Major James Dempster, an American citizen serving with the Salvation Army at Tinghsien on the Peking-Hankow Railway, was killed by Chinese robbers on the night of April 27-28, 1938. A Russian guard employed by the Salvation Army was killed at the same time. Salvation Army Headquarters at Tinghsien was held up some weeks ago and Major Dempster forced to turn over some fourteen hundred dollars. Returning to Tinghsien from a trip to Peking about ten days ago, he is reported to have recognized on the train several members of the band who held him up and to have indicated that he had noted the presence of these bandits. Hence his killing may have been the result of fear on the part of the bandits that he would take steps to have them brought to punishment.

(2) American Aviator Detained in Yokohama.

Mr. Melvin Gibbon, who has been serving in the Chinese air force and is alleged to have participated in the raid on Formosa during March, was arrested by Japanese police on board the Canadian Pacific liner Empress of Asia while that vessel was in port in Yokohama on April 24th. Mr. Gibbon was taken to the Yokohama Police Headquarters and subjected to a severe grilling. Reports were circulated for a time that he might be charged with "embarrassing public safety," for which offense the punishment under Japanese law may be death or life imprisonment. It was announced in Tokyo on April 27th, however, that charges against Gibbon would be dropped. Dropping of the case was reported to be partly in consideration of international issues which might have resulted had Mr. Gibbon been punished, and partly because he is a national of a neutral country.

According to Reuter, the spokesman of the Japanese Embassy in Shanghai stated on April 27th that Japan has the right to remove from foreign ships any passengers, foreign or Japanese, when inside Japanese territorial waters, if the passengers were suspected of violating Japan's laws. The spokesman claimed that Japan had the right to remove such passengers even if they did not go ashore.

(3) Last of 15th Infantry Leaves China.

The U. S. Army Transport Meigs sailed from Chinwangtao for Manila on April 30, 1938, carrying Captain Malcolm R. Kammerer, 15th Infantry, Lieut. Colonel Seth C. Dildine, V.C., and Major George E. Armstrong, M.C., and about fifty enlisted men. This represents the last contingent of the U. S. Army Troops in China left behind when the main body of the 15th Infantry sailed for Tacoma on board the USAT Grant on March 3rd. Major Frank J. Keelty, F.D., Major William A. Rounds, J.A.G.D., and Major John P. Welch, Q.M.C., are still in Tientsin. They intend to sail for Manila on the U.S. Navy Transport Henderson on May 9th in order to catch a transport to the United States.

(4) Transfer of Property of China Merchant's Company to American Firm.

It was announced in Shanghai on April 6, 1938, that all ships and other properties of the China Merchant's Steam Navigation Company had been transferred to the American firm of William Hunt and Company. Subsequently the Chinese Company applied to the United States Court for China for an injunction to restrain the American firm from taking over the Company. In defending this action, Mr. William Hunt, head of the firm, claimed that he had been virtual owner of the Company for over a year because of failure by the Company to repay sums of money advanced by him. He also claimed that under his management the company had paid a profit for the first time in many years. On April 23rd the United States Court for China delivered a verdict denying the injunction and recognizing Mr. Hunt's ownership of the company.

On April 26th the Ministry of Communications of the new Reformed Government of China announced that it would not recognize the validity of the transfer of the China Merchant's Company to the American firm. The statement of the Reformed Government is given by Reuter as follows: "In accordance with the statement of the Foreign Office of the Reformed Government of March 28, 1938 (see our Report No. 9655, page 3), the Ministry of Communications announces that it will neither recognize the validity of any contracts and agreements on the transfer of the assets of the China Merchant's Steam Navigation Company, including godowns, wharves, and ships, nor will it assume any responsibilities accruing from such contract."

Opposition to the taking over of the China Merchant's Company by the American firm is said to have originated principally with the Japanese military authorities in Shanghai who, according to Domei reports, suspect that the transfer is merely a subterfuge to put the ships and property of the company under nominal American control in order to prevent them from being seized by the Japanese. Thus William Hunt and Company may expect trouble if they continue to operate the company against the will of the Japanese military. Originally the company had about twenty-five vessels, but a number of these have been sunk by the Chinese to make booms across the Whangpoo and Yangtze Rivers, which brings up the possibility that Hunt and Company may later institute claims against the Chinese Government for reimbursement for the loss of these vessels.

The taking over of the China Merchant's Company marks the return of the firm to American control, as the organization is an outgrowth of the American-owned Russel & Company which sold out to the Chinese in the 19th century. The Russels, incidentally, were related to the family of President Franklin D. Roosevelt, a circumstance which recently prompted Mr. Hunt to name one of his important wharfs "The Roosevelt Terminus."

7. Shanghai.

Conditions in Shanghai, comparatively speaking, have been rather quiet during the period of this report. This is only by contrast with more exciting periods in Shanghai's recent history, however, for a number of events have occurred which are by no means conducive to the peace of mind of Shanghai's citizens.

On April 7th, Dr. Herman Liu, Chinese President of the University of Shanghai, an American Baptist institution, was shot and fatally wounded on Bubbling Well Road. After shooting his victim once, the killer tried to fire again, but the gun jammed. Police rushed to the scene and in the ensuing firing two Chinese pedestrians and a British police sergeant were wounded. The killing of Dr. Liu created a profound sensation as he was well known in foreign circles, particularly among missionaries, and was held in high regard because of his recent activities as a relief worker among Chinese refugees.

The reasons for the killing of Dr. Liu are as yet not fully understood. One suspect is reported to have admitted complicity in the murder, stating that Dr. Liu was a traitor to China. As Dr. Liu was universally known to be extremely patriotic, it is believed that some other motive must have been behind the act.

Probably the most exciting days for Shanghai during the period under review were May first and the day following. On the former date at 7:15 in the evening a bomb was thrown on Nanking road, in the heart of the International Settlement, by an unknown Chinese. Japanese authorities alleged that the bomb was thrown at a passing naval truck, and a detachment of military police at once took virtual possession of a stretch of Nanking Road, permitting no pedestrians or rickshas to pass through the cordoned area. Although most of the Japanese gendarmes were withdrawn during the night of May 1st-2nd after having been on duty about six hours, half a dozen entered the Louza Police Station on Nanking Road. Major General A.P.D. Telfer-Smollett, Commanding the British Forces in Shanghai, requested the Japanese to withdraw on the grounds that they were violating the British defense sector. On May 2nd soldiers of the Seaforth Highlanders, wearing steel helmets, were posted on Nanking Road near the Japanese gendarmes. British soldiers were also posted in the Louza Police Station with instructions to remain as long as the Japanese did. Contributing to the general excitement, American Marines manned the border of their sector armed with automatic rifles.

The incident passed off on May 3rd, as incidents in Shanghai have always hitherto happily passed, when the Japanese withdrew from Nanking Road after negotiations and the Settlement authorities agreed to do their best to find the culprit guilty of the bomb throwing.

This affair was no more than over, however, when another Anglo-Japanese incident occurred. This time the incident involved a truck belonging to the British Navy. It appears that a Japanese sentry guarding a bridge into Hongkew refused to recognize a Japanese navy pass permitting the truck to enter and leave Hongkew, and that a Japanese officer attempted to persuade a British sergeant to accompany the truck to Japanese headquarters in Hongkew. The whole affair appears of small importance but it seems to have been enough to bring forth protests from the British Navy on the grounds of interference with the truck, and from the Japanese on the grounds that the British attempted to transport munitions into Hongkew without giving the Japanese previous notice. The whole matter will probably be forgotten in a few days, but the effect may be added to the sum total of the irritation which such incidents give to the already strained Anglo-Japanese relations in Shanghai.

The Japanese have lately been attempting to gain a measure of control over broadcasting stations in Shanghai. On April 30th it was announced that the Japanese authorities had decided to resort to resolute measures unless all broadcasting stations responded to a request for registration with the Japanese Broadcasting Supervision Bureau which was published in March. Out of twenty-three Chinese and four foreign stations, only eight stations have registered with the Bureau, but twenty-two Chinese stations voluntarily suspended operations on April 28th.

8. Communications.

(1) Japanese Interference with Tientsin Telephone Service.

Because they cannot enter the British Concession in Tientsin, the Japanese military authorities have been unable to assume control of the Bruce Road exchange of the Chinese Telephone Administration which, with the exception of the Posts, is the only organ of the Chinese National Government still functioning in Tientsin. To make the operation of this exchange as difficult as possible, however, the Japanese have repeatedly cut the wires from the British Concession into the surrounding special areas and have also used threats and intimidation to induce employees of the exchange to quit their jobs. One Chinese telephone engineer employed by the exchange has disappeared and it is feared that he may have been kidnapped or killed.

Lately, due to the efforts of the German Consul General in Tientsin, lines into the First Special Area, the former German Concession where many German nationals still reside, have been let alone. There is no doubt, however, that as long as the Bruce Road exchange remains outside Japanese control it will continue to be a splinter in the eye of the Japanese authorities.

(2) Tungchow-Jehol Railway.

Travelers who have recently made the trip to Jehol over the new Tung-chow—Jehol Railway report that the switch-back, by which junction is effected between the Tungchow-Kupeikow and Kupeikow-Chengte sections of the line, is not now in use, and passengers must travel by bus for about twelve miles. Thus completion of the railway awaits the finishing of a tunnel through the hills at Kupeikow. This is reported to be a difficult piece of engineering work which will require some time to complete.

An amusing circumstance in connection with the railway is that among the first foreign travelers to go over the line were Mr. George Gorman, Japanese-paid editor of the Peking Chronicle, and Mr. Luigi Barzini, Italian newspaper correspondent who was on board the Panay when it was sunk. Both of these gentlemen were arrested in Kupeikow on their way back from Chengte to Peking, were forced to return to Chengte and subjected to a long and severe grilling on the charge of having taken pictures of military installations. Desire of the Kwantung Army, in control of Chengte, to display its authority may have been behind the arrests, but whatever the cause, they caused many a laugh in Peking.

9. Economic.

(1) Provisional Government Denies Oil Monopoly Under Consideration.

According to Domei news agency, rumors which have been in circulation for some time that the establishment of an oil monopoly company with Japanese capital was being contemplated in North China were denied by officials of the Provisional Government on April 28th. The report further states that the Provisional Government has already announced its attitude of favoring the maintenance of the Open Door in North China and that the new government welcomes foreign capital and enterprises in the economic development of this area.

There appears to be little doubt that the Provisional Government and the Japanese authorities have no desire to force the foreign oil companies out of business in North China at the present time, as their organization and installations could not easily be replaced, but what will happen to these companies when Japanese interests can conveniently carry on the oil business here is another question.

(2) Exchange Situation.

The foreign exchange situation has improved considerably since our last report. With the establishment of an office in Shanghai on April 12th through which applications for foreign exchange are forwarded to the Ministry of Finance in Hankow, the obtaining of amounts of foreign exchange sufficient for the ordinary business requirements of this port has been greatly facilitated. The value of the Chinese dollar in Shanghai has steadied at around $3.64, bank's selling rate for American dollars, and at about $3.84 in Tientsin for the same exchange.

It is now definitely known that the rumor mentioned in our last Comments that the Japanese Embassy in Peking had applied pressure to the Yee Tsoong Tobacco Distributors (British-American Tobacco Company) to supply funds to help the newly established Federal Reserve Bank to enter the foreign exchange business was correct. The Company has now agreed to pay the bank a sum in pounds sterling equivalent to five million dollars Mex., at the rate of one shilling, two pence per dollar. In return for this sum, the Company will receive equivalent value in Shantung tobacco. The sum is to be paid in instalments. Payment of the first instalment of one million dollars is being held up pending settlement of the military situation in Shantung. The means by which the pressure was applied was the threat of interference with the Company's source of leaf tobacco supply, the best of which supplies come from Shantung.

No confirmation has been received of the rumor that the Japanese had applied similar pressure to the Kailan Mining Administration.

(3) Danger of Yellow River Floods This Summer.

Mr. H. G. W. Woodhead, well known British newspaper man and long an authority on Chinese affairs, warns of the danger which threatens if the dykes of the Yellow River are damaged by military operations or are neglected as the result of war conditions. According to Mr. Woodhead, a great amount of work under the supervision of engineering experts is necessary each year to keep the Yellow River in bounds, and if this work is neglected for even a single flood season there is great danger of a calamity which will affect millions of persons. Reports have already appeared in military communiques from Hankow of the cutting of the dykes of the Yellow River near Chengchow by Chinese troops, and it is just this sort of operation which Mr. Woodhead states may result in the death of thousands by drowning and of many more by starvation in floods of hitherto unknown proportions.

(4) China's Foreign Trade for March.

According to Transocean, the foreign trade of the whole of China showed a considerable increase during March, imports being forty per cent higher than for the same period last year. Exports are also reported to have increased, but only to a small extent. The rise of imports is stated to be due solely to the increase in importations of war materials and rice. The unfavorable trade balance for March as the result of increase of imports over exports is stated to be $50,000,000 Mex.

10. Mongolia.

According to both Havas and United Press reports from Moscow, a purge, rivalling Russia's recent Trotskyist Opposition trials, recently occurred in Outer Mongolia to crush an allegedly Japanese-inspired plot against the government. The reports state that first evidences concerning the plot were uncovered in January 1937 and investigations have been continued ever since, as a result of which an unknown number of persons have been executed. Blame for the plot is laid at the door of Buddhist priests, acting in collusion with Japanese agents.

According to a report in the Peking Chronicle of April 18th, the Mengchiang (Mongolian Border) Bank, which recently began operations in Kalgan with a capital of 12,000,000 dollars Mex. subscribed by the governments of South Chahar, northern Shansi, and Inner Mongolia, has begun the redemption of old currencies now in circulation in these regions, using issues of the Mengchiang Bank which are on a par with Japanese yen.

Reports from Tokyo state that Mongolian wool, hitherto under the same import restrictions as Australian wool, is to be imported duty free into Japan. This is in line with reports that Japan is seeking to obtain a virtual monopoly of wool production in Inner Mongolia.

11. Manchukuo.

Tokyo reports state that the first contingent of 5,000 volunteer emigrants for Manchuria left Japan in April. This is said to be the first batch of a total of thirty thousand which will be sent to Manchuria this year under a program laid down by the Overseas Ministry for the emigration of 1,000,000 colonists over a period of twenty years.

An incident of minor importance involving the French garrison in Shanhaikuan took place on April 14th when the commandant of this force is alleged to have erected a boundary mark in Manchukuo territory at a point 1,000 metres north of the French camp. The incident was amicably settled after negotiations between the diplomatic agent of the Manchukuo Government in Shanhaikuan and the French Commandant.

On April 26th the Tokyo Foreign Office made an announcement claiming that Soviet troops had crossed the Manchukuo border on April 24th and 25th and attacked outposts near Hunchun, just north of the Korean border. According to the report, there was some fighting, in which, as is to be expected in view of the source of the news, many Soviet soldiers were killed and the Manchukuo troops suffered no casualties.

12. Chinese Leaders.

Mr. Sun Fo, who has been in England sounding out the British Government on the subject of obtaining a loan, left London on April 28th for Paris. Havas states that after a brief stay in the French capital he will visit Scandinavian countries, after which visit he will return again to Paris.

Madame Chiang Kai-shek, in a recent article in the Birmingham Post, declares that China neither asks nor expects western powers to fight for her against Japan, but that China hopes the powers will carefully observe Japan's program of aggression in Asia and judge her accordingly.

13. Szechwan.

The Central Government is apparently having a hard time finding a suitable man to become Chairman of Szechwan to replace Chang Chun, Chiang Kai-shek's favorite son who was appointed to the post in January after the death of Liu Hsiang but whose appointment was later withdrawn because of opposition on the part of the Szechwan warlords. It was reported on March 2nd that General Teng Han-hsiang, a native of Szechwan and for years a close associate of Liu Hsiang, had been appointed Chairman. This was followed by reports originating in Shanghai on April 16th that General Ho Kuo-kwang, Director of Chiang Kai-shek's Headquarters in Chungking, had been appointed Acting Chairman. On April 27th, Hankow reports stated that the long controversy over the chairmanship of the province had finally been settled by the appointment of General Wang Tsan-hsu, Commanding the 44th (Szechwan) Army Corps. On April 29th, however, another report from Hankow stated that General Wang had declined the appointment on the grounds that he would soon be leaving for the front with his troops. This may, however, be only a face-making gesture to suggest that he ardently desires duty in the front lines, and he may later be prevailed upon to accept the post. General Wang, also a subordinate of the late Liu Hsiang, is reported to have recommended General Tang Shih-tsun for the job.

If the Chinese Government is forced to move from its present location in Hankow, it is generally understood that the next seat of government will be established in Chungking, in Szechwan. If such a move is made, the capital of China will then be located deep within a province which has long been practically independent of Central Government control and has often been near the point of actual war with the National Government. That the Szechwan warlords would welcome the establishment of the capital in their domain, with the possibility of a subsequent curtailment of their influence and revenue, is a question open to considerable doubt.

For and in the absence of the Military Attache:

David D. Barrett
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Major, Infantry
Assistant Military Attache

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COMMENTS ON CURRENT EVENTS

May 5 - 21, 1938

RECEIVED G/2 W. D. JUN 20 1938

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4. Manchukuo
5. Local Conditions
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1. Governments of China.

(1) Provisional Government.

(a) Mr. Wang Ke-min Returns from Japan. Mr. Wang Ke-min, Chairman of the Executive Commission of the Provisional Government of China, whose trip to Shanghai and Japan was mentioned in our last Comments on Current Events, returned to Peking by air from Tokyo on May 9th. Receiving the gentlemen of the foreign, Chinese, and Japanese press on May 11th, Mr. Wang stated that while in Japan he had held consultations with Prince Konoye and other high civil and military officials of the Japanese Government, and that the results of these consultations had been very satisfactory. Mr. Wang refused to commit himself in answer to questions as to when the Provisional and Reformed Governments would be amalgamated, but stated that progress had been made toward settling this problem.

The British-owned Peking and Tientsin Times hints editorially that Mr. Wang may have signed some kind of a secret agreement in Tokyo giving away some of China's sovereign rights, as much as it is in his power to give them away, in exchange for assurances that the present provisional regime would be allowed to continue in power. While it is considered entirely within the bounds of possibility that Mr. Wang might be capable of such an act, any definite evidence to this effect is lacking. As a matter of fact, all conversations which Mr. Wang had with Japanese officials were kept entirely secret and, for the present, speculations concerning the real purpose of his visit and the results accomplished, if any, appear likely to be of little value.

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(b) Tungchow Military Academy Opened. The Military Academy of the Ministry of Public Safety of the Provisional Government of China was formally opened in Tungchow on May 10th. General Chi Hsieh-yuan, Minister of Public Safety, Major Narita, representing the Japanese Army, and other Chinese and Japanese notables were present. According to Domei, one hundred students are in attendance. It had been previously announced that four hundred would be enrolled in the first class, but according to reports current in Peking there was no overwhelming rush on the part of the youth of North China to attend the Academy, and of the number who did apply for appointment thereto many were rejected for failure to pass a strict examination concerning their political beliefs and for inability to secure responsible guarantors for their good conduct.

A Digest report of the information now available concerning the academy will be forwarded in the next diplomatic pouch.

(c) Provisional Government to Exchange Diplomatic Representatives with Manchukuo. According to a Reuter report from Hsinking of May 15th, preparations are under way for an exchange of diplomatic representatives between Hsinking and Peking and also between Hsinking and Inner Mongolia. According to the report, the question of opening Manchukuo consulates in these two countries is also under consideration.

(d) Provisional Government Army Commander Appointed. General Li Fu-ho, former Commander of the 5th Cavalry Division of the old Northeast (Chang Hsueh-liang) Army, who surrendered in March to the Japanese in northern Honan, has been appointed Commander-in-Chief of the Provisional Government's First Route Anti-Communist Army. It is reported that Li's troops, stated in Japanese quarters to number 15,000 but actually believed not to exceed more than five or six thousand, are to be sent to Paoti, north of Tientsin, for station, but as far as is known the transfer has not as yet been effected. The soldiers are said to be afraid to come north for fear of possible harm which might come to them at the hands of the Japanese Army.

(2) The Central Government of China.

On May 10th, Dr. Wellington Koo, the Chinese Ambassador to France and China's delegate to the League of Nations, addressed the Council of the League of Nations in Geneva. In the course of his speech Dr. Koo made the formal accusation that Japan was on the point of using poison gas on a large scale and asked that steps be taken at once to forestall the preparations for such an infamous crime. Dr.

Koo also requested the Council to apply the provisions of the League Covenant to bring an end to Japanese aggression.

On May 15th the Council unanimously passed a resolution reiterating the League's sympathy with China and condemning chemical warfare. Reports from Geneva on May 14th stated that the Council would pass a resolution calling attention to the Assembly's previous recommendations that League members aid China individually. No such resolution was passed in the final session on May 15th. After the resolution of sympathy was passed, Lord Halifax, Britain's Foreign Secretary, stated that his country was prepared to give a serious consideration to China's eventual requests, based on the Council's resolution of last year recommending that members of the League assist China individually. Press reports state that this statement backed up a speech Lord Halifax had made on May 14th in which he had declared that Great Britain was ready to consider China's appeals for commercial credit. Lord Halifax's statement appears to have been the only evidence discernible in the proceedings of the League that any member was willing to do something for China in a concrete way.

(3) Reformed Government of China.

According to a Domei report of May 20th from Shanghai, Mr. Wang Jui-chu has been appointed Governor of Chekiang Province by the Reformed Government. This is in line with the policy of the new government, reported in our last Comments, of establishing provincial regimes in Kiangsu, Anhui, and Chekiang.

2. Relations of England with Japan and China.

(1) English Missionaries Slain in Shansi.

Dr. H. G. Wyatt and Miss Beulah Glasby, of the British Baptist Missionary Society, were killed in Shansi on May 4th near Kuohsien. It is alleged that the two missionaries were mistaken for Japanese by Chinese Communist forces operating along the highway running from Taiyuan to Tatung. According to the reports of British missionaries in Taiyuan, when the Communists discovered that they had killed British subjects they expressed the deepest regrets. Two other British missionaries who were in the same party with Dr. Wyatt and Miss Glasby were captured by the Communists, but were later released and safely conducted back to Taiyuan.

(2) Another Anglo-Japanese Incident in Shanghai.

On May 14th, Mr. C. S. Wilkinson, a British subject in Shanghai, was arrested by Japanese soldiers on the charge of having entered a forbidden zone. He was released the same day, but it is alleged that while in Japanese custody he was stabbed in the back with a bayonet, in addition to being subjected to a severe grilling. According to Reuter reports, the Japanese soldiers engaged in an impromptu war dance around Mr. Wilkinson when it was discovered that he was a British subject and it was during the course of this performance that he is alleged to have been wounded. Latest reports on the affair are that following British protests both in Shanghai and Tokyo, the incident is to be settled by the Japanese Consul General in Shanghai.

(3) Great Britain not Likely to Mediate in Far Eastern War.

According to a Reuter report from London dated May 13th, Great Britain is not likely to mediate in the Far Eastern situation at present. Mr. Neville Chamberlain, the Prime Minister, is said to have stated in the House of Commons on May 12th that it would be useless for Great Britain to offer mediation until both sides had shown a willingness to accept it, and that at the present time there was no indication that such willingness could be expected in the immediate future. Mr. Chamberlain is also reported to have expressed the opinion that both China and Japan are capable of carrying on for a long time without cracking either militarily or economically, under which circumstances it appeared most unlikely that either side would show much readiness to negotiate for peace.

3. Japanese Policy Toward China.

Summing up the question of Japanese relations with China, Mr. Koki Hirota, in an interview with foreign newspaper correspondents in Tokyo on May 9th stressed the following points, according to Domei News Agency:

> Japan will have no dealings with Chiang Kai-shek even if he should accept in toto the proposals made by the Japanese Government last January relative to opening of negotiations for peace.
>
> The conditions for the merging of the new regimes in North and Central China should be decided by the Chinese themselves. When a new Chinese government is formed by the merging of these regimes Japan will recognize it on an equal footing. Recognition of the new government of China will be made when it has acquired the necessary prestige as the Central Government of China.
>
> Japan has no territorial designs in China.

Japan welcomes foreign capital in the development of North China and will observe the policy of the open door.

Revision of the customs tariffs of North China will probably be a temporary arrangement for the relief and rehabilitation of the people of North China and will not affect the basis of the Chinese Maritime Customs.

The Japanese Government cannot regard with equanimity Russia's assistance to China, but it appears that this assistance has fallen short of Chinese expectations.

The recent Anglo-Italian and the impending French-Italian understandings will have a favorable effect on the peace of Europe and eventually of the world, and these understandings do not adversely affect the Italo-German-Japan anti-Comintern pact.

4. Manchukuo.

(1) Manchukuo-German Treaty of Amity.

A treaty of amity between Manchukuo and Germany was signed in Berlin on May 12th between Mr. Hiyoshi Kato, representing Manchukuo, and the German Foreign Minister. According to Domei the treaty consists of four articles providing for the following:

(1) An exchange of consuls between the two countries;

(2) the nationals of both countries to be given freedom of travelling and business in each other's country;

(3) both Governments to agree to the opening of negotiations for trade and commerce in order to promote friendly relations between the two countries;

(4) the present treaty of amity to be done in both the German and Manchurian languages.

According to the Domei report, the full text of the treaty will be published after it has been ratified by Herr Hitler and the Emperor of Manchukuo.

A Digest report on the treaty will be forwarded when the full text is available.

(2) Poland to Recognize Manchukuo.

According to a Tokyo report of May 5th from Domei, the Polish Government has declared its intention of extending de facto recognition to Manchukuo and of concluding a trade agreement with that country.

5. Local Conditions.

(1) Passport Regulations.

It was announced by the Bureau of Public Safety in Tientsin on May 6th that foreigners intending to travel outside of the city were required to apply for passport visas at the Bureau before making their trips. It was further announced that these visas were subject to examination at two inspection offices, one at the Bund for steamship travellers and another at the East Station for passengers on trains. A fee of three dollars Mex. was to be charged for the visas and applicants for the same were to appear in person at the Bureau of Public Safety and bring their passports and three photographs with them.

As was to be expected, this announcement raised a storm of protest from foreigners, who generally regarded the imposition of these unusual passport regulations as an intolerable contravention of the ordinary rights of persons residing in foreign countries who possess passports properly issued to them by their own governments. While there has been no official relaxation regarding the regulations, it is understood that they have been allowed to go more or less by the board in the case of foreigners who have hitherto enjoyed extraterritorial rights in China.

These local passport regulations, enforced with more or less strictness in Tientsin, have not been applied in Peking, hence it is generally supposed that the idea behind the regulations was to control the large Russian population of Tientsin, many of whom are Soviet citizens or White Russians whom the Japanese regard with suspicion.

(2) Tientsin Yung Pao Bombed.

On May 6th a bomb was thrown on the premises of the Yung Pao, a Japanese-controlled Chinese language newspaper published in the French Concession in Tientsin. No damage resulted. The journal is of course violently pro-Japanese and the bomb throwing is believed to have been the work of a terrorist who wished to intimidate those employed on the paper.

(3) Prince Chichibu Visits Peking and Tientsin.

Prince Chichibu, younger brother of the Emperor of Japan, visited Tientsin and Peking around the 14th of May, the exact dates of his visit being kept a closely guarded secret. During his stay of several days in Peking, the strictest sort of martial law was enforced every time he passed through the streets, no Chinese being permitted to approach any thoroughfare through which his automobile was to pass and all shops along these streets being required to close. Foreigners were allowed to pass along the guarded streets in motor cars only when the Japanese military police felt inclined to grant special permission. Violating all precedents concerning the rights of persons residing in the Legation Quarter, martial law was also enforced in this area whenever Prince Chichibu passed in or out of the Japanese Embassy. On one occasion a detachment of ten Japanese soldiers was actually posted just outside the gate of the British Embassy, but was withdrawn when one of the Embassy officials protested. On Saturday evening, May 14th, the Prince evidently dined in the Japanese Embassy, for Legation Street and the street in front of the Japanese Embassy were lined with Japanese soldiers wearing steel helmets and with fixed bayonets, posted at intervals of a few feet with strong detachments at every road intersection.

As far as is known, Prince Chichibu had no contact whatsoever with foreigners during his stay in Tientsin and Peking.

6. Chinese Maritime Customs.

On May 6th the Reformed Government of China formally took over the control of the Shanghai Maritime Customs through Mr. Li Chien-nan, who has been appointed Superintendent of Customs in that port by the new regime. Following the taking over of the Customs by the Reformed Government, it appeared for a day or so as if the employees of the Customs and possibly of the Posts in Shanghai would go on strike, but they later decided not to do so, probably feeling that such an action would only result in the loss of their jobs. Mr. L. H. Lawford, the Commissioner of Customs in Shanghai, has continued at his post and has announced that he is taking orders from the Inspector General of the Maritime Customs, not from the Reformed Government.

For some time cargoes of Japanese goods have been entering Shanghai duty free at certain wharves where only Japanese employees of the Customs are permitted to be on duty. The Japanese Embassy spokesman in Shanghai admitted at a press conference on May 9th that the reason these goods were not taxed was because the Customs "were not yet ready." The spokesman maintained, however, that the goods entering without paying Customs charges were either supplies for the Japanese Army, which are entitled to be imported without duty, or else necessities of life for the Japanese civilian population which did not compete with foreign merchandise. Reports from Shanghai to the effect that sugar and other commodities on which no duty has been paid can often be purchased in the open market at prices far below those charged for goods which have passed through the regular Customs channels indicated that not all the cargoes admitted duty free are for the exclusive use of Japanese soldiers or civilians.

It is frequently stated in Japanese semi-official circles that another revision of tariff rates, to apply in the areas under Japanese control, is impending and will probably be put into effect in June. It is to be hoped that when these rates go into effect steps will be taken to stop the importation into Shanghai or any other port of Japanese merchandise without levying Customs duty thereon, as the chances of abuses arising from such a practice are so obvious as to need no commenting upon.

7. Chinese Leaders.

General Tsao Kun, who was elected President of China on October 5, 1923, and assumed office on the "Double Tenth" (October 10th), five days later, died in Tientsin on May 17th. All that need be known about Tsao Kun may be found in the 5th edition of "Who's Who in China," except the fact that for a time in 1937 many rumors were in circulation that he was to become the head of the Provisional Government of China which was then in the process of formation. It may also be of interest to add that he is popularly supposed to have started out in life either as a groom or a wheelbarrow pusher. The death of Tsao Kun marks the passing of another typical old-time warlord. In considering his career and his many obvious faults, one is reminded of the saying of Confucius, "When you see a great man, think of trying to equal him. When you see a man who is not great, turn and examine yourself."

The Tokyo Nichi Nichi on May 10th quoted its Hongkong correspondent as authority for a report that Feng Yu-hsiang had been arrested in Hankow on charges of plotting a coup d'etat. No confirmation has been received of this report, which is received with extreme circumspection by this office.

Mr. Eugene Chen, who was Foreign Minister in the first Nationalist Government established in Hankow in 1927, and was later Foreign Minister in the Nanking regime, arrived in Hongkong from Europe on April 19th. On May 11th, the

Chinese press in Shanghai carried a report that Mr. Chen is to receive an appointment in the Chinese Central Government either as Foreign Minister or to some other important post having to do with foreign affairs. Mr. Chen was born on the Island of Trinidad and is part white and part Chinese. For a time he carried an English passport as his birth in Trinidad made him a British subject. He has long been more or less persona non grata with the British, principally for his part in the negotiation of the Chen-O'Malley Agreement by which Great Britain lost its concession in Hankow. Hence it seems unlikely that Mr. Chen would be appointed Foreign Minister at this critical time when the Chinese Government needs all the support it can possibly obtain from Great Britain.

8. Fall of Chinese Dollar.

The Chinese dollar, which broke badly early in April and afterwards steadied considerably following an improvement in the situation concerning the purchase of foreign exchange, began to decline again about May 15th. On May 17th the National City Bank in Peking, for the first time in several years, was buying U.S. currency at four Mex. dollars for one American dollar. The Bank's selling rate, however, was much higher, customers having to put up four dollars and forty cents Chinese National currency (no Federal Bank notes accepted) for one U.S. dollar. In the past few days the rate has declined still further and at this writing the National City Bank is offering around $4.16 Mex. for a U.S. dollar and charging around $4.70 for one U.S. dollar. The great difference between the buying and selling rate indicates the uncertainty of the dollar in terms of foreign exchange.

The reason for the sudden fall of the dollar is not generally understood in banking circles. Some attribute it to the recent Chinese defeats on the Lunghai, but it is generally believed that rumors of further restrictions upon the sale of foreign exchange are probably more responsible than the military situation for the decline.

Notes of the Federal Reserve Bank of China are still not accepted by foreign banks for the purchase of foreign exchange, but are now generally accepted for other commercial transactions. If it is desired to purchase foreign exchange with these notes, they must be exchanged for issues of one of the Chinese National Government Banks for which a premium of about three per cent must be paid.

The decline in the value of the dollar is already having a marked effect on the cost of imported goods, some of which have risen around twenty-five per cent in price since the fall in exchange began. During the past few days there have been some indications that the dollar will not fall much more for the present, but the general impression in banking circles is that there is not much prospect of its regaining the strong position which it maintained until recently.

9. Szechwan.

Reuter reports from Chungking that the Chinese National Government, in order to escape from the protracted negotiations and bickerings which have marked recent attempts to settle the political situation in Szechwan, has adopted a policy of general conciliation by which local aspirants for office in the Szechwan provincial government will be allowed to decide among themselves, without interference from the Central Government, as to who should occupy various posts. If this report is correct, it is an indication of the lengths to which the Chinese Government is willing to go to satisfy the Szechwan warlords. With many rumors in circulation that the seat of government will shortly move from Hankow either to Chungking or Yunnanfu, the desirability of keeping the Szechwan warlords happy is easily apparent.

At the time of our last Comments, General Wang Tsang-hsu, Commander of the Szechwan 44th Army, had just been appointed Chairman of the Provincial Government, but according to press reports he had declined the post on the grounds that he would soon be leaving for the front. As suggested in our Comments at that time, it appears that this was a face-making gesture, for according to latest reports from Szechwan General Wang has accepted the appointment and is discharging the duties of his office.

In spite of reports that all is well between the Central Government and Szechwan, the province has been more or less at loggerheads with the National Government for so long that it seems hardly possible that all differences have been ironed out so easily and completely as the Chinese newspapers declare. Nevertheless, the fact remains that Szechwan troops have recently fought hard and well for the Central Government, which speaks much for the growth of a unified spirit in China. A few years ago, a suggestion that Szechwan warlords would lead their troops out of the home province to fight for Chiang Kai-shek would have been hooted down as ridiculous. No matter what differences may arise in future between the many factions which have existed for so long within the fabric of the Chinese Government, the fact that all seem to be pulling together just now cannot but have a profound effect upon the future of the Chinese nation.

For and in the absence of the Military Attache:

David D. Barrett
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COMMENTS ON CURRENT EVENTS

May 22 - June 25, 1938

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2. French Aid to China
3. Recall of German Military Advisers
4. Governments of China
5. The Chinese Maritime Customs
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1. Japanese to Abolish Extraterritoriality in China?

"Owing to the establishment of extrality in China foreigners have the preconceived notion that they rate special privileges." This statement was made in Shanghai on June 24th by the Japanese Embassy spokesman at a press conference. The spokesman went on to state, "Actually foreigners have no privileges that the Chinese have not. In Japan the foreigner is subject to Japanese law and this is being put into effect in China. The Japanese Army is in occupation of Nanking and therefore foreigners there are under Japanese law."

The startling statements quoted above were made in connection with the alleged slapping by a Japanese soldier in Nanking on June 18th of Mr. J. C. Thomson, an American citizen. According to Mr. Thomson's account of the incident, the slapping was entirely unprovoked. It was announced in Washington on June 23rd that diplomatic representations have been made to the Japanese Government on the subject of the slapping. The Japanese Embassy spokesman in Shanghai on June 24th stated that a military investigation had failed to find any evidence that Mr. Thomson had been slapped.

Not content with his blast of the previous day, the Embassy spokesman made his position even more explicit on June 25th when he reiterated that the Japanese do not recognize extraterritoriality in the areas they control. He modified his remarks to some extent, however, by a statement that abolition of extraterritoriality applied only if foreigners interfered with armed forces or the progress of the campaign inside Japanese occupied territory. He further stated that foreigners would be searched by Japanese sentries in the same manner as Chinese.

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If the statements outlined above represent the view of the Japanese Government, and there has been no indication from Tokyo that they do not, the future of the foreigner residing in Japanese-occupied territory does not appear rosy. As far as can be judged from the above remarks, the Japanese Government will permit without let or hindrance the Japanese military to bully, insult, and manhandle any foreigner suspected of interfering in any way with Japanese military operations.

Probably the sainted Dr. Sun Yat-sen would have been much surprised if, when he wrote the appeal for the abolition of the unequal treaties between China and western powers into his will, he had known that these treaties were to be abolished on Chinese soil by the Japanese Army.

2. French Aid to China.

The Japanese press has been giving much prominence to reports concerning the recent visit to Hankow of Mr. Paule Emile Naggiar, the French Ambassador to China. Mr. Naggiar arrived in the capital on June 13th, accompanied by Commandant de la Ferte Senectere, Air Attache to the French Embassy, and Colonel Perretier, commanding the French forces in Shanghai. The Japanese press reports claim that Mr. Naggiar's visit was for the purpose of carrying on negotiations with the Chinese Government for the conclusion of a secret military agreement. The Asahi Shimbun, Tokyo, even went so far as to declare that the existing Franco-Soviet pact will be extended to form a Franco-Chinese non-aggression pact, or a Franco-Soviet agreement for military aid to China.

The terms of the alleged pact are said to provide for the furnishing of military advisers and war materiel to China, in return for which China has promised France certain mining and transportation concessions. Much has also been made of recent reports that French bankers are backing the construction of a railway from the Indo-China border to Nanning. A French-owned railway already runs from Langson to Hanoi, where it joins with the Haiphong-Yunnan Railway.

The existence of a secret treaty between France and China has been officially denied in Paris, Peking, and Tokyo. Havas agency, Peking, came out with a report on June 16th that the French Embassy had stated that the French Government is resolved to continue its observance of a policy of strict impartiality in the present Far Eastern crisis.

Recent allegations in the Japanese press that France, after having placed a ban on the shipment of munitions to China through French Indo-China, is again permitting large quantities of arms to enter China through her territory are generally considered as political maneuvers.

There is no doubt that the question of Hainan Island looms very large in the relations of Japan and France. The Japanese Navy has openly hinted that occupation of Hainan may be necessary and the recent bombardment of the island by Japanese naval vessels and airplanes indicates that the Navy considers it as a possible zone of operations. Reuter stated in a despatch from Paris on June 22nd that the French Government intended to take a firm stand on the question of Hainan and that Japanese occupation of the island would be considered harmful to the French interests guaranteed by the Franco-Japanese Treaty of 1907. A recent report in circulation that in the event Japan landed troops on Hainan, France would land an equal number, has been officially denied from Paris.

As far as the construction of a railway from Langson, French Indo-China, to Nanning, Kwangsi, is concerned, French official circles in Peking state openly that the line is under construction with funds furnished by French banks, but that the French Government has no official connection with the project.

An illustration of the French way of doing business with the Japanese was recently afforded in Tientsin. When Chinese police appeared on the premises of the Jesuit College, located in the First Special Area, and desired to inspect the institution, they were met by the French Consul General, backed up by a company of French infantry. The French Consul General informed the Chinese police, who were of course acting under Japanese instigation, that they could not inspect the premises then or at any other time, and that any attempt to do so would be met with armed force. This display of intestinal fortitude was especially pleasing in view of the opinion expressed in some quarters that the only reason the French are able to take a firm stand vis-a-vis the Japanese in Shanghai is because they have a concession there, which is actually French territory. In Tientsin, however, the French Consul General did not hesitate to leave his concession and enter Japanese-controlled territory in order to look out for the rights of French citizens and protect French-owned property.

3. Recall of German Military Advisers.

A considerable sensation was caused by the report on May 23rd that all German military advisers had been ordered to return to Germany. Since the announcement of the recall, numerous reports have been circulated in connection with the return of the advisers. Some reports have said that the advisers would not be permitted to leave China, while others have stated that some dare not return to Germany even if they so desired. To date not one of them is known actually to have left Hankow.

It seems probable that in some Chinese military quarters, the news of the recall of the advisers was received with equanimity. Pai Chung-hsi, for one, has been reported in favor of getting rid of them for some time, allegedly on the grounds that many military secrets are leaking out through them. As far as is definitely known, Chiang Kai-shek has made no real move to retain the advisers except a perfunctory request to Berlin that they be allowed to remain.

Rumors have been in circulation that the Germans, if and when they depart, will be replaced by French or Russians, or even Americans. Captain Dorn reports from Hankow that some Russian military and technical experts have actually arrived in the past few days. Local French official circles deny emphatically that any French advisers will come, either now or at any future time. As far as the replacement of the German advisers by Russians is concerned, it seems probable that there will be little difficulty in securing the personnel, but the quality of the advice they can offer is an entirely different matter. In view of the recent purges in the ranks of the Soviet Army, it would appear that any particularly outstanding military talent could be employed to good advantage at home.

4. Governments of China.

(1) The Central Government.

(a) Bankers' Conference in Hankow. Managers of all government and privately owned banks in Chinese-controlled territory met in conference in Hankow on June 1st. The opening of the conference was presided over by Dr. H. H. Kung, President of the Executive Yuan and Minister of Finance. Dr. Kung made an appeal for national economy, economy in this case meaning the saving of money by curtailment of unnecessary expenditure. According to Hankow reports, the conference considered a number of measures for strengthening the financial position of the Chinese people, particularly with regard to the granting of small loans for agricultural, industrial, mining, and other productive enterprises. Reports in circulation that the conference would consider fundamental measures with regard to China's currency system and policy were denied in Hankow.

Evidences of any concrete results obtained by the bankers' conference are not visible, particularly in view of the alarming rate at which the Chinese currency has fallen. The idea of calling a conference of this sort, however, for the discussion of problems affecting internal finance appears to be an excellent one and if followed in future may eventually be productive of good results.

(b) Chinese Embassy in Tokyo Closes. The Chinese Embassy in Tokyo was closed on June 10th, and the buildings sealed by Japanese officials in the presence of the Chargé d'Affaires, Mr. Y. C. Yang. It was alleged, according to the press reports, that continued interference in the affairs of the Embassy by persons purporting to be Chinese citizens but actually Formosans or even Japanese detectives made it impossible to carry on the normal functions of an embassy.

Previous to his departure for China, Mr. Yang was given a dinner by some of his Japanese friends in Tokyo.

(c) Evacuation of the Chinese Government from Hankow. Reuter printed a report from Hankow on June 9th that all plans had been completed for the transfer of the Chinese Government offices from Hankow to points in the interior. According to the report, civil offices would be moved to Chungking, while military organs would be moved first to Hunan and later to Kunming (Yunnanfu). Next day a Chinese Government spokesman denied that the Chinese Government intended to evacuate Hankow, and stated that the reports apparently arose over the plans to evacuate refugees, wounded, women, and children. Actually large numbers of such persons have been evacuated from Hankow since the early part of June.

According to Japanese sources, the reports that Hankow was to be evacuated by the Chinese Government brought forth a statement from the Communists that they would defend the city to the last, even if they had to arm the common people with clubs to do so. The truth of this report cannot be absolutely vouched for, but it sounds entirely reasonable. Whether this alleged stand on the part of the Communists had any effect or not, no evidences of any actual withdrawal of government offices from Hankow have as yet been noted.

According to latest reports, blocking of the Japanese attacks on the Lunghai and in southwestern Anhui by the cutting of the dykes of the Yellow River and the flooding of the Yangtze have caused the Government to abandon any idea of removing from Hankow, as it is thought that the city cannot be in danger of falling for several months at least.

(d) New Cabinet Officials for China. United Press, whose reports are unfortunately often not too reliable, came out with a story on June 14th that some changes might be impending in the personnel of the National Government. Specifically, the report stated that Mr. Eugene Chen might become Minister of Foreign Affairs and Mr. T. V. Soong Minister of Finance. Nothing has occurred since to indicate that there was any truth in the story.

As far as Mr. Soong's possible appointment as Minister of Finance is concerned, it is believed that it would be welcomed in both Chinese and foreign circles, but if the Chinese Government is desirous of winning friends and influencing people, it is believed it would do well to refrain from making Mr. Eugene Chen the Foreign Minister. Mr. Chen is in general too radical for the foreign, particularly the British, taste. Great Britain will probably always associate him with the Chen-O'Malley agreement, by which she lost her concession in Hankow. Mr. Chen was born in Trinidad, of Chinese and English parentage, and his mixed blood has given him a bitterness toward the latter which has often colored his official as well as private acts.

(e) Central Government Appoints a Governor of Hopei Province. General Lu Chung-lin, a former close adherent of Feng Yu-hsiang's, has been appointed Governor of Hopei Province and is reported to have left Hankow to take up his new post on June 7th. Just how he expects to reach his provincial capital and where his seat of government is to be located is not stated. Governor Lu is reported to have expressed his intention of combatting the Japanese at every turn and of trying to awaken a national consciousness in the people of Hopei Province.

As a matter of fact, emissaries of Hankow come and go in Peking without much apparent difficulty. It seems likely, however, that a person of the prominence of Lu Chung-lin might find it a risky business to attempt travel in Japanese-controlled territory. If he sticks to the areas away from the railway lines, however, he will probably be able to make his way without too great difficulty.

(2) The Provisional Government of China.

(a) Peking Puts Out a Peace Feeler. The Provisional Government of China on June 19th issued a long statement dilating on the horrors of war and calling upon Generalissimo Chiang Kai-shek and the other Hankow leaders to acknowledge defeat in order to spare the Chinese people further useless suffering. The statement further declared that the Kuomintang had run amok and was keeping up the war with Japan solely in order to continue its own existence. Forgiveness for their past mistakes was assured to all Kuomintang leaders who would repent and negotiate peace.

A pronunciamento similar in nature was issued simultaneously by the Reformed Government in Nanking.

Considerable attention has been paid to the action of the two new governments in foreign circles, but thus far there has been no evidence of any reaction in Hankow. London reports state that several British papers expressed the opinion that the appeal was certainly made with the backing, if not at the direct instigation, of Japan, and the Daily Telegraph went so far as to opine that the peace feeler constituted a symptom of "Japan's ever growing doubts as to the possibility of colonizing China."

In the opinion of this office, the motive behind the action was two-fold; first, to ascertain if there was any sentiment for peace in Hankow, and second, in the event that the appeal was disregarded, to use it as a means of convincing the Japanese people of the need for some drastic step in the Sino-Japanese conflict, possibly a declaration of war or a consequent general mobilization.

(b) New Governor of Shansi Appointed. The Provisional Government has announced the appointment of Mr. Su Ti-jen as Governor of Shansi Province. The inauguration of the new Shansi Provincial Administration is expected on July first. Mr. Su is a native of Shansi, forty-nine years old, and is a graduate of a Tokyo institution named "The Higher Industrial Institute of Tokyo," from which he obtained his diploma in chemistry in 1916. As far as is known his previous jobs have all been of small caliber, and he is apparently just the sort of man the Japanese would allow to be appointed Governor of Shansi.

(3) The Reformed Government of China.

(a) Shanghai Offices of Reformed Government to Close. According to a Domei report of June 21st from Shanghai, all offices of the Reformed Government in that city are to be closed in the immediate future and administrative functions will thereafter be carried on in Nanking. The report states that when the Reformed Government was formed, disturbed conditions in Nanking made it impracticable to maintain the offices of government there, but that now conditions in Nanking have become settled and furthermore the administrative business of the new government has steadily increased. Accordingly, it has been decided to remove all offices to Nanking. Domei has even carried a story describing the allotment of the buildings of the Chinese National Government to the various departments of the Reformed Government.

(b) Amalgamation of New Regimes. At the time of the formation of the Reformed Government of China, it was announced that this regime would probably be amalgamated with the Provisional Government as soon as Hsuchow had been captured and through traffic established on the Tientsin-Pukow Railway. Hsuchow has now been in Japanese hands for over a month, and through traffic on the Tsinpu was announced as restored on May 24th, but no definite signs of any amalgamation have as yet appeared.

Mr. Wang Ke-min, Chairman of the Executive Council of the Provisional Government, visited General Count Terauchi, commanding the Japanese troops in North China, at his headquarters somewhere on the Tsinpu on May 25th, ostensibly to congratulate him on the capture of Hsuchow. According to the Domei report of the meeting, Mr. Wang told General Terauchi that the merger of the two new governments would now be merely a matter of time.

The opinion has been expressed in some circles that the anniversary of the outbreak of the Sino-Japanese conflict, July 7th, may be utilized as an appropriate date for the amalgamation of the new regimes. Japanese leaders, however, have been very guarded in their expressions of opinion on this subject for the past month or so.

5. The Chinese Maritime Customs.

On May 31st the Reformed Government of China announced a new uniform custom tariff for areas in North and Central China occupied by Japanese troops. The new tariffs were announced as temporary only until a more rational tariff could be introduced, and they are to be considered merely as an extension of the tariffs instituted for North China as an emergency measure on January 20th. The new rates, which went into effect as of June first, effect a general reduction of about 40% in the customs duties. None of the rates previously in effect has been cut less than twenty-five per cent and some as much as seventy-five per cent. Tariff on cotton piece goods was cut from fifty to sixty per cent, on woolens forty-five per cent, and on artificial silks by seventy-five per cent. Duties on metal wares are cut by half, and those on fish products and fish, all of which are supplied by Japan, have been cut by from forty to fifty per cent. Duty on cereals is reduced from fifteen per cent to five per cent ad valorem, while the rates on all kinds of sugar have been cut seventy-five per cent. Generally speaking, the changes affect imports from Japan which she can easily supply and exports of Chinese produce which Japan requires.

The new rates were branded in foreign circles, particularly among British business men in Shanghai, as "blatantly pro-Japanese," and the opinion was generally expressed that the effect on foreign business would ultimately be disastrous. A brighter side of the picture, however, is seen in the fact that with the promulgation of the new duties, the Japanese authorities in Shanghai have permitted Customs officials access to wharves where Japanese goods are received, which has made it possible to assess duties on large amounts of Japanese merchandise which for some time had been passing in free. According to a Havas report of June 23rd from London, it was stated in the House of Commons on that date that Japanese as well as other nationals were being required to pay the new customs duties and that normal conditions in the Customs might be expected in Shanghai at an early date.

It was to be expected that the new customs duties would be favorable to Japanese trade, but at the present time their ultimate effect upon foreign trade is difficult to predict. A booklet showing the new Customs tariffs accompanies this report under separate cover.

6. Local Conditions.

(1) Interference with Schools.

Local schools have recently been subject to rigid inspection by Chinese police accompanied by Japanese. The purpose of the inspection has allegedly been to seek for anti-Japanese and pro-communistic material. According to reports from foreigners in educational and missionary work, little such material has been found as the schools had made a determined effort to get rid of it in advance in order to avoid trouble. Thus far all primary and middle schools, including those supported by foreign missions, have been searched, but the foreign universities have not yet submitted their premises to inspection.

The principal of one very small primary school maintained by funds subscribed by members of the Men's Brotherhood of the Peking Union Church, of which the membership is largely foreign, was taken into custody because there was found in the school a picture of one of the scenes of the coronation of King George the Sixth of England, which was adorned with crossed British and Chinese national flags. The principal was held in custody for several hours but released when foreigners connected with the American Embassy, acting in unofficial capacity, interceded with the Chinese police on his behalf.

A situation which bodes ill for the future of foreign-supported institutions of higher learning in Peking occurred recently when the local police authorities, backed by the Special Service Bureau of the Japanese Army, tried to induce the heads of Yenching University to hold an anti-Communist, anti-Chiang Kai-shek, anti-Kuomintang meeting. Dr. J. Leighton Stuart, President of Yenching, refused to hold the meeting, stating that he would close the institution first. After some discussion, and after mediation by the American Embassy, a compromise was reached whereby the University was not required to hold the meeting, but it is understood that Dr. Stuart has agreed to invite Japanese members to the faculty of Yenching "at a suitable time," and has further agreed not to permit any anti-Japanese or pro-communistic activities on his campus. As a matter of fact no such activities were ever permitted, as Yenching has always maintained a policy of not permitting its students to engage in political activities.

There is probably no feature of the Japanese occupation of Peking which arouses the ire of foreigners more than the odious practice now in vogue of forcing school children to participate in meetings celebrating Japanese victories. Attendance at such affairs is obtained by the simple method of arresting the principal if the students do not turn out. Hence the heads of the various schools are vitally interested in seeing that their institutions are well represented. All Chinese public schools, both primary and middle, are required to take part in such demonstrations. Some of the mission supported schools of this class have been able to avoid participation at times by various subterfuges, but there is every indication that the time is not far distant when all schools, no matter how supported, will be subject to the will of the Japanese in this matter.

(2) Theatres in Tientsin Bombed.

On June 6th, Tientsin got its first taste of the bombing activities which have become so common in Shanghai, when bombs were thrown in two cinemas, one in the First Special Area and the other in the French Concession. In the first named theatre, a disastrous fire broke out as the result of the bombing, but fortunately no one was injured in either theatre. No damage was done to the theatre in the French Concession. The throwing of the bombs appeared to be the work of members of an organization calling itself "The Corps for Resistance Against Japanese and the Extermination of National Traitors," and in both cases the explosions occurred after the scattering of small handbills bearing anti-Japanese propaganda. The handbills also condemned those who seek amusement in places owned by the enemy.

7. The Fall in the Chinese Dollar.

The Chinese currency has continued to fall and at the time of writing banks are paying about $5.31 local currency for the American dollar. Once during the past ten days they were paying the unprecedentedly low, or high if viewed from the standpoint of those paid in American currency, rate of $5.86 for one U.S. dollar.

The reason for the fall in the exchange appears not to be generally understood, even in business circles in Shanghai. The spokesman for the Hongkong and Shanghai Banking Corporation in Hongkong was recently quoted as being of the opinion that the Chinese dollar is at the mercy of political influences and that its decline was due solely to manipulation of the market.

It is not generally believed that the slump in the dollar is due to the system of foreign exchange control recently instituted in Hankow and explained in our previous reports. On June 10th it was announced that a new system of allotting amounts of foreign exchange would be followed. Under this system, allotments of exchange would be made to firms and individuals for specific purposes rather than to banks. It was hoped in this manner that speculation in exchange could be controlled and at the same time as large a percentage as possible of legitimate demands for exchange be satisfied. At the same time restrictions were imposed dividing exchange applications into categories according to the necessity of the purpose for which the exchange was desired, the idea being to allow more applications for the purpose of purchasing essentials than for buying luxuries. As far as can be observed, the new regulations have had no effect upon the downward trend of the dollar.

A peculiar feature of the exchange situation here is that inasmuch as the yen and the Chinese dollar are pegged together by decree of the Japanese Government, the yen has declined in relation to the U.S. dollar along with the Chinese currency. As a result one can exchange U.S. dollars for Mex, take the Mex to the Yokohama Specie Bank and obtain yen for them at par. In Japan, however, the yen is maintained by law at a fixed level of about $3.25 to the U.S. dollar. Today an American en route to Tokyo changed five hundred dollars U.S. into yen. The difference between the rate he was able to obtain here and the prevailing rate in Tokyo netted him around a thousand yen.

According to present regulations, no one is allowed to carry more than five hundred yen out of China, but actually the Japanese banks will issue a draft good in Japan for any amount. It seems hardly possible that the Japanese Government will permit this situation to continue.

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